

## USDOJ/OIG Special Report

# THE CIA-CONTRA-CRACK COCAINE CONTROVERSY: A REVIEW OF THE JUSTICE DEPARTMENT S INVESTIGATIONS AND PROSECUTIONS (December, 1997)

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## USDOJ/OIG Special Report

# **THE CIA-CONTRA-CRACK COCAINE CONTROVERSY: A REVIEW OF THE JUSTICE DEPARTMENT S INVESTIGATIONS AND PROSECUTIONS (December, 1997)**

## **Epilogue (July, 1998)**

### **I. Introduction**

On December 17, 1997, I signed our completed report entitled, The CIA-Contra-Crack Cocaine Controversy: A Review of the Justice Department's Investigations and Prosecutions. This 407-page report was the culmination of a comprehensive 15-month investigation by the Office of Inspector General (OIG) into allegations first raised in the San Jose Mercury News that U.S. government officials -- including Central Intelligence Agency (CIA) and Department of Justice (DOJ) employees -- either ignored or protected drug dealers in Southern California who were associated with the Nicaraguan Contras. We originally planned to publicly release the report the following day, December 18, 1997.

However, the Attorney General, citing law enforcement concerns, invoked Section 8E of the Inspector General Act to defer the release of our report. This was the first time that publication of one of our reports has been prevented in this manner. Given the extraordinary nature of the Attorney General's action and the significant interest in why our report was not released in December 1997, we believe it necessary to describe the sequence of events that resulted in the Attorney General's decision not to permit the report to be publicly disclosed until now.

The report we are releasing today is the same report that we completed on December 17 and planned to release on December 18. It has not been changed in any way.

### **II. The OIG Investigation and the Delay in Issuing the Report**

One of the chief figures in the Mercury News articles was Oscar Danilo Blandon, a Nicaraguan who fled to the United States soon after the Sandinistas came to power. The articles reported that he was one of

the biggest drug traffickers in Southern California, supplying Ricky Ross, a major cocaine dealer in Los Angeles, and others in California and elsewhere.

Shortly after his arrest on federal drug charges in May 1992, Blandon began cooperating with the government. After his guilty plea to a charge of conspiracy to possess cocaine with the intent to distribute, federal prosecutors filed a motion for a reduced sentence based on his substantial assistance to the government. He was sentenced to 48 months in prison. Blandon continued to cooperate with the government after his sentencing. In September 1994, prosecutors filed another motion seeking a further reduction in his sentence, and the judge resented him to "time served" -- 28 months -- based on his continued cooperation.

One of the primary issues raised in the Mercury News series was why Blandon received such lenient treatment from the government. The articles and the public discussion that ensued also focused on the disparity between Blandon's sentence and the prison sentence of life without parole received by Ross upon his conviction on federal drug charges in 1996 -- a case developed by Blandon acting on behalf of the DEA. The articles suggested that the difference between the treatment of Blandon and Ross might be attributable to Blandon's alleged ties to the CIA or the Contras.

Among other issues, the OIG investigation thoroughly examined Blandon's case and the treatment he received. We did not find that he had any ties to the CIA, that the CIA intervened in his case in any way, or that any connections to the Contras affected his treatment. We explored the facts surrounding Blandon's sentence reductions and found through our interviews of DEA and federal prosecutors that his reductions in sentence were based on his substantial cooperation with prosecutors and investigators, not ties to the Contras or the CIA. We made no attempt independently to measure the value of Blandon's cooperation; instead we sought to determine whether his cooperation was the reason for his lenient treatment.

To gather this information, we interviewed Blandon in February 1997 (with the DEA's knowledge), DEA agents who worked with him, and federal prosecutors in San Diego who handled his case. Through these efforts, we learned the extent of Blandon's cooperation and that he continued to cooperate with the DEA after he was released from prison in September 1994. We also learned that after the Mercury News articles focused attention on Blandon and his activities in late 1996, the DEA stopped using him as an informant.

Our investigation, which began in October 1996, was nearing completion of the investigatory phase in the summer of 1997. In August 1997 we were told by the DEA that it was considering reactivating Blandon and using him as an informant in a criminal investigation. We were asked by the DEA whether we had found any reason to believe that Blandon had perjured himself in interviews with us or in his testimony in a closed session of the Senate Select Committee on Intelligence in October 1996. We replied that we had no such evidence.

In November 1997, we provided a draft of our report to the DEA, the DOJ Criminal Division, and the

United States Attorney's Office for the Southern District of California (USAO). We asked them to review the document and provide us any comments regarding the report or disclosure of informant or other law enforcement information. We requested these comments by December 5 because we intended to release the report in mid-December.

On December 8, 1997, we learned for the very first time that the DEA, the Criminal Division, and the USAO objected to our release of information about Blandon's past cooperation with the DEA. We learned that Blandon had been reactivated as an informant in September 1997 to assist with an investigation of international drug dealers. According to the DEA, in order to protect his credibility in the face of the publicity generated by the Mercury News articles, Blandon had told the drug dealers that he had cooperated with the U.S. government in the case against Ricky Ross but had not cooperated against anyone else. As disclosed in our report, Blandon provided assistance to the government in investigations of many drug traffickers other than Ross.

Over the course of the next several weeks in December 1997 and January 1998, the OIG was involved in extensive discussions with the DEA, the Criminal Division, the USAO, and the Deputy Attorney General's Office regarding the release of our report. The DEA, the Criminal Division, and the USAO argued that release of the report would significantly increase the personal risk to Blandon and the viability of the DEA's investigation. We pointed out that the details regarding much of Blandon's extensive cooperation against people other than Ross was already part of the public record and that using Blandon under these circumstances would put his safety in jeopardy regardless of the publication of the report. We also argued that the report dealt with a matter of substantial public interest, and we expressed our concern that preventing release of the report would simply add fuel to the allegation that the Department was involved in a cover-up.

Based upon the representations of the DEA, the Criminal Division, and the USAO of the importance of the criminal investigation, Blandon's role in that investigation, and safety issues with respect to Blandon, the Deputy Attorney General decided to recommend that release of our report be deferred while the DEA pursued its drug investigation. On January 23, 1998, the Attorney General issued a letter invoking her authority under the Inspector General Act to delay public release of our report based on those same representations.

On July 14, 1998, the Attorney General wrote us a letter stating "the law enforcement concerns that caused me to make my determination no longer warrant deferral of the public release of your report." Her letter stated that we could therefore release the report. We are doing so now, with no changes from the original.

### **III. Conclusion**

We believe that the decision to reactivate Blandon as an informant was undertaken without adequate notice or consultation about its impact on our ability to discuss in the report the critical issue of Blandon's past cooperation with the government. This was an important part of our investigation and

report.

The Attorney General's decision to block the release of our report gave rise to groundless speculation that the Department was trying to suppress findings and conclusions contained in our report that may have been damaging to the Department or may have supported the original allegations. That was never an issue. Rather, the Attorney General's decision was based on an assessment of the importance of the criminal investigation, Bandon's role in that investigation, and safety issues with respect to Bandon versus the benefit of timely release of a report that addressed a topic of significant public concern.

July 22, 1998

Michael R. Bromwich  
Inspector General

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## **EXECUTIVE SUMMARY**

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## Executive Summary

### I. Introduction

In August 1996, the San Jose Mercury News published a series of articles, entitled "Dark Alliance: The Story Behind the Crack Explosion," which alleged that certain individuals associated with the Nicaraguan Contras had flooded South Central Los Angeles with cocaine in the 1980s. The articles further alleged that these individuals had used the proceeds from their drug trafficking to finance the Contras' war against the Sandinista regime in Nicaragua. The articles made the startling claim that this drug pipeline helped spark the crack epidemic in Los Angeles and throughout the United States. More explosively, the stories implied that the Central Intelligence Agency (CIA) was aware of these activities and either attempted to protect the drug dealing of these Contra supporters or turned a blind eye to their activities. The articles also questioned how certain individuals connected to the Contras were treated by law enforcement authorities, including elements of the Department of Justice (DOJ) -- the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Immigration and Naturalization Service (INS), and various United States Attorney's Offices -- implying that they were treated differently because of ties to the Contras or the CIA.

The articles focused on the drug operation of Ricky Ross, an African-American resident of Los Angeles who was a major cocaine dealer. The series claimed that his meteoric rise as a drug trafficker was made possible by Oscar Danilo Blandon and Norwin Meneses, two Nicaraguan nationals with ties to the Contras who allegedly used the profits they earned from selling Ross massive amounts of cocaine to help fund the Contra war effort.

Allegations of drug dealing by Contra supporters in the 1980s are not new, and they have been previously investigated by various government entities and the press. The Mercury News articles sparked renewed interest in such allegations, but the articles' chief significance was their suggestion that the CIA and other agencies of the United States government may have been responsible for the crack epidemic that ravaged the African-American community in South Central Los Angeles and other communities throughout the country. Although the Mercury News later claimed that it had not made the allegation directly, the suggestion of government or CIA involvement in the crack epidemic spawned calls for investigations about the claims suggested by the Mercury News articles.

The DOJ Office of the Inspector General (OIG) conducted a review of the actions of the Department of Justice that were implicated by the allegations in the Mercury News articles. We did not reinvestigate the more general allegations of Contra involvement in drug trafficking, which had already been extensively reviewed in previous inquiries by the Senate Foreign Relations Committee's Subcommittee on Narcotics, Terrorism and International Operations; the State Department; the DEA; and the CIA. Rather, we focused our attention on the new allegations about the individuals described in the Mercury News articles, including Blandon, Meneses, Ross, and Ronald Lister, an associate of Blandon. The articles raised numerous questions concerning whether Department of Justice employees, including



employees from the DEA, the FBI, the INS, and various U.S. Attorney's Offices, properly investigated and prosecuted these individuals or whether they were protected because of ties to the Contras or pressure from the CIA.

We also reviewed related allegations raised by the articles about the actions of Department of Justice employees in other cases, including the claim that \$36,000 was returned to convicted drug dealer Julio Zavala by the U.S. Attorney's Office in San Francisco in 1984 because of Zavala's ties to the Contras or intervention from the CIA; the claim that Zavala and his associate Carlos Cabezas trafficked in drugs to benefit the Contras; claims by former DEA agent Celerino Castillo that his investigation of drug trafficking by Contras at Ilopango Airport in El Salvador was stymied; and allegations that John Hull, an American citizen who owned a ranch in Costa Rica and was suspected of drug trafficking activities, received lenient treatment from the Department of Justice because of his alleged connections to the Contras or the CIA.

In our investigation, we directed all Department of Justice components to produce documents from their files relating to the specific individuals mentioned in the Mercury News and allegations of drug trafficking by the Contras. We obtained and reviewed over 40,000 pages of documents from these Department of Justice components and other sources, and we conducted over 200 interviews of present and former Department of Justice employees and many of the individuals that were the subject of the articles, including Blandon, Meneses, Lister, Ross, Zavala, Cabezas, and others. These interviews took place throughout the United States and in Nicaragua. Only a few individuals who were no longer government employees refused to talk to us, and the OIG does not have testimonial subpoena power to compel them to cooperate.

Our review was coordinated with the inquiry conducted by the CIA's Office of Inspector General (CIA OIG), which undertook its own investigation focusing on the actions of CIA employees regarding allegations of drug trafficking on behalf of the Contras. Our two investigations were independent, however, and addressed different issues. We leave to the CIA OIG to report its findings about the CIA's conduct in these matters; our report focuses on the Department of Justice's role in these cases.

Our report is divided into chapters examining the cases of the individuals who were the focus of the Mercury News articles, including Blandon, Meneses, Lister, Ross, Zavala, and Cabezas; we also have a separate chapter on miscellaneous cases, such as that of Hull. Although our inquiry concentrated on the Department of Justice's role in pursuing the investigations and prosecutions of these individuals, we did, in the course of our interviews and document review, find information touching on whether these individuals in fact dealt drugs on behalf of the Contras or were connected to the CIA. We present this information in our report. We also discuss the rise of crack cocaine in the United States and the accuracy of the suggestion in the Mercury News articles about the cause of that epidemic. Finally, we discuss the sharing of intelligence information between the DEA and CIA about Contra drug trafficking in certain cases.

This Executive Summary briefly describes the most important facts we found and conclusions we

reached regarding the individuals that were the focus of the claims in the Mercury News articles; it does not include all or even most of the important details and events that the full report addresses. We believe our entire report should be read for a fuller and fairer understanding of the results of our inquiry.

In short, our review did not substantiate the main allegations stated and implied in the Mercury News articles. It is clear that certain of the individuals discussed in the articles, particularly Blandon and Meneses, were significant drug traffickers who also supported, to some extent, the Contras. There were conflicting claims about how much money they provided to the Contras, although that support appears to be modest. We did not find that Blandon, Meneses, or the other Contra supporters referred to in these articles received special consideration or leniency with regard to their investigation or prosecution by the Department of Justice because of their Contra connections. While the Department of Justice's investigative efforts suffered from lack of coordination and insufficient resources, these efforts were not affected by anyone's suspected ties to the Contras.

Moreover, the implication that the drug trafficking by the individuals discussed in the Mercury News articles was connected to the CIA was also not supported by the facts. We did not find that the CIA or any other national security entity interceded in the cases referred to in the Mercury News. An exception to this general conclusion was the CIA's intervention in the Zavala case concerning the return of the seized money to him.

Finally, we found that neither Blandon's supply of cocaine to Ross nor Ross' own drug dealing was the cause of the crack explosion in Los Angeles or across the United States, as the articles implied. While Blandon was a major cocaine supplier and Ross was a major distributor, the rise of the crack market, both in Los Angeles and across the country, was not the result of any single source or seller.

## **II. Oscar Danilo Blandon**

Oscar Danilo Blandon, a member of a prominent family in Nicaragua, fled to the United States soon after the Sandinistas came to power in Nicaragua in 1979. In the early 1980s, while living in Los Angeles, Blandon began distributing cocaine, originally at the behest of Norwin Meneses to support the Contra movement. Shortly after he began dealing drugs, Blandon began selling large quantities of cocaine on his own for his personal profit. By his own admission, he became a significant drug dealer, receiving cocaine from Colombian, Mexican, and Nicaraguan sources, and selling it to Ricky Ross and others in Los Angeles and elsewhere.

In 1986, Blandon's drug trafficking activities became the focus of criminal investigations in Los Angeles by the Los Angeles County Sheriff's Department (LASD), the DEA, and the FBI. In October 1986, with the help of the FBI and DEA, the LASD obtained search warrants for more than a dozen locations connected to Blandon's drug organization. When the search warrants were executed, however, the LASD found only a negligible quantity of drugs at Blandon's residence.

The Mercury News articles raised various allegations about why the LASD raids failed, including the

suggestion that the federal authorities may have impeded the LASD investigation or that the Blandon organization may have been tipped off about the search warrants by the CIA or federal law enforcement authorities. This speculation was largely fueled by statements made by Ronald Lister, who told the LASD deputies who searched his home during the raid about his alleged CIA connections and suggested that his activities were protected by that agency. In addition, the newspaper articles claimed that the federal authorities seized the evidence collected by the LASD during its raids and requested that drug possession charges against Blandon be dropped.

Our review did not substantiate these claims. The FBI and DEA investigators did ask the LASD to delay the execution of the search warrants while they pursued their investigation of Blandon, a position that was justified in retrospect. However, once the LASD indicated its intent to go forward with the searches, the FBI and DEA fully cooperated with the LASD, even providing information that became part of the basis for the LASD affidavit in support of the search warrants. We found no evidence that the failure of the LASD investigation was the result of its being compromised by the CIA or any other federal authorities. Blandon changed his operations before the raids occurred because he correctly believed he was under surveillance. We found no evidence to suggest that any government officials told him about the surveillance or the search warrants in advance. We also concluded that Lister and others made statements at the time of the raids about alleged connections to the CIA because they apparently thought such claims would be helpful rather than because they were true. In any event, we found no evidence that the investigators changed any of their actions because of these unsubstantiated claims. Charges against Blandon were dropped because of the small amount of cocaine found at his home and because of the federal agents' plans to pursue a larger case against the Blandon organization.

In fact, three months later, in January 1987, the FBI, DEA, and the Internal Revenue Service (IRS), in coordination with the Los Angeles U.S. Attorney's Office, opened a federal Organized Crime Drug Enforcement Task Force (OCDETF) case targeting Blandon and his associates. This investigation was unsuccessful and was closed in the summer of 1987 for several reasons, none of which related to the CIA or the Contras. We concluded there were insufficient law enforcement resources assigned to the OCDETF investigation for them to investigate Blandon's organization effectively. Second, Blandon apparently stopped his drug trafficking activities after the unsuccessful LASD raid on his home and moved to Florida. Finally, there were problems of coordination among the various law enforcement entities involved in the case, particularly between the DEA and FBI regarding whether Meneses should be used as an informant against Blandon or should be a target of the investigation. We found no evidence that Blandon and Meneses were protected by any intelligence agency or received any benefits because of their connection to the Contras or any alleged connection to the CIA.

Blandon eventually returned to Southern California in 1990 and continued drug dealing there. In 1990, another federal OCDETF investigation was opened against Blandon in San Diego, eventually resulting in a 1992 indictment against him for conspiracy to possess cocaine with intent to distribute it. After Blandon's arrest, he agreed to cooperate with the government in return for a reduced sentence. Blandon was eventually sentenced to 48 months in prison, based on his substantial cooperation against drug traffickers. The government later filed a motion seeking a further reduction in Blandon's sentence, based on his cooperation, and the court reduced Blandon's sentence to 28 months.

The Mercury News articles suggested that Bandon was given an inappropriately lenient sentence after his 1992 conviction, despite his "admission to crimes that have sent others away for life." We found that Bandon clearly received a considerable degree of leniency, at the behest of the government, based on his substantial cooperation. Whether the government should have given more consideration to Bandon's prior criminal history before providing him the substantial sentence reduction, or whether his sentence was appropriate given the extent of his cooperation, is part of a broader debate about the leniency with which the government treats certain valuable cooperating witnesses and informants that extends far beyond the context of this case. In our review, we found no indication that the government's actions were based on anything other than its assessment of Bandon's cooperation. We also found no evidence that Bandon received any special consideration because of any alleged affiliation with the Contras or the CIA.

The OIG concluded that Bandon improperly received a "green card" -- legal permanent residence (LPR) status in the United States. After Bandon's release from prison in 1994, the INS agent assigned to the OCDETF investigation was given responsibility for obtaining the necessary travel documents so that Bandon could travel to work undercover for the DEA. Rather than pursue various avenues that would have allowed Bandon to stay in the country while he worked for the DEA, the INS agent arranged for Bandon to obtain a green card from an INS immigration examiner. Bandon was not eligible for a green card because of his 1992 felony drug trafficking conviction. Although recollections differ on what the INS agent told his supervisors or the immigration examiner who approved the green card concerning Bandon's prior criminal conviction, we concluded that the INS agent knew or should have known that Bandon was not eligible for the green card, and that the agent withheld the fact of Bandon's conviction from the immigration examiner. We concluded that the INS agent took the actions he did because he did not want to expend the additional effort necessary to obtain the travel documents the appropriate way, rather than because of any alleged connection between Bandon and the Contras or the CIA.

### **III. Norwin Meneses**

The OIG also examined Department of Justice actions with respect to Norwin Meneses, another Contra supporter who engaged in significant drug trafficking in California, primarily in the San Francisco area. The evidence is overwhelming that beginning in the 1970s, Meneses ran large drug trafficking operations both in Central America and the United States. In the early 1980s, he also supported the Contra cause in California with some contributions. The evidence we found suggested that his drug dealing was not motivated by any desire to aid the Contra cause, but instead was for his personal profit. Indeed, it appears that he established contacts and dealt drugs with both sides in the Contra war, including the Sandinista government.

The Mercury News articles suggested that, despite being a known drug trafficker, Meneses was able to enter and live in the United States with impunity, and that he was protected because of his connections to the Contras, the CIA, or other agencies of the United States government. According to the articles, DEA investigations of Meneses were halted for reasons that were not clear, and when Meneses was finally indicted in San Francisco on federal drug charges in 1989, the indictment was "quickly locked

away in the vaults of the San Francisco courthouse," and inexplicably kept secret for many years. The articles claimed that the arrest warrant for Meneses in 1989 was never entered into a national law enforcement database. We did not substantiate any of these claims.

Meneses was investigated several times over the course of many years. These investigations failed for various reasons, including the same problems of coordination between and within law enforcement agencies that arose in the Bandon case. Between 1980 and 1986, the DEA in San Francisco conducted various investigations of Meneses or his associates. Some of his associates were successfully prosecuted, although the DEA never obtained sufficient evidence to prosecute Meneses.

Contrary to the Mercury News claims, we did not find that these investigations were halted because of any alleged connection between Meneses and the Contras or the CIA. The DEA agent who initially handled the investigations told us that she believed that a task force was necessary to investigate Meneses and his associates because it was a large and complex organization. Her suggestion was rejected because she was working on other cases and, she claimed, because her supervisors did not take her request seriously because she was a female agent. In any event, there was no evidence that there was any external pressure brought to bear on her or anyone else in DEA regarding the investigation of Meneses.

After two of his associates were arrested, Meneses fled the United States for Costa Rica. In 1986, he approached the DEA's Costa Rica office and offered to cooperate with the DEA. After checking DEA's database and finding no outstanding arrest warrants for Meneses, the DEA in Costa Rica proposed using him to introduce an experienced DEA informant to targeted drug traffickers, including Danilo Bandon. Meneses traveled to the United States in early 1987 with the DEA informant to meet with Bandon and other targeted drug dealers, and then returned to Costa Rica.

At the same time, the San Francisco FBI and the San Francisco U.S. Attorney's Office were investigating Meneses for drug trafficking. They were surprised to learn that Meneses was being used as a source of information. The San Francisco authorities agreed that Meneses could be used as a source of information, but insisted that he would also have to plead guilty to a federal drug charge in San Francisco. In the spring and summer of 1987, attempts to get Meneses back to the United States to cooperate in the Los Angeles OCDETF investigation against Bandon, discussed above, were unsuccessful because the DEA would not agree to Meneses' demands regarding the conditions of his cooperation. The Los Angeles OCDETF case was eventually closed without any prosecutions.

Despite Meneses' reluctance to cooperate in the Los Angeles investigation, the DEA in Costa Rica formally established him as a confidential informant in July 1987. The DEA reported that several cases were initiated as a result of his cooperation, and he travelled to the United States several times to work undercover for the DEA. In December 1989, the DEA deactivated Meneses as an informant, reactivated him for a short period in the summer of 1990, and then deactivated him again in 1990.

In February 1989, just before the statute of limitations was set to run out, the San Francisco FBI and U.

S. Attorney's Office obtained an indictment charging Meneses with drug trafficking offenses. The indictment was sealed because Meneses was considered a fugitive, a typical procedure in such cases to prevent the defendant from learning about the charges. Also, contrary to the claims made in the Mercury News articles, the arrest warrant was entered into the FBI's law enforcement database.

Meneses was never arrested on these charges, even while he was working with the DEA in Costa Rica and traveling to the United States on behalf of the DEA. During this time, there clearly was inadequate coordination between the DEA, which was using Meneses as an informant, and the FBI, which was seeking Meneses' arrest. But we did not find that this had anything to do with any ties to the Contras or the CIA. Although there were some rumors that he was involved with the CIA, largely fueled by his own bragging to others, we found no evidence that this was true or that the rumors affected law enforcement actions.

On November 3, 1991, the Nicaraguan National Police arrested Meneses, Enrique Miranda, and three others for drug trafficking in Nicaragua. After Meneses received a 25-year prison sentence in Nicaragua, the FBI suspended any effort to arrest him. Meneses' Nicaraguan sentence was later reduced, and he was released from prison on November 14, 1997. The San Francisco indictment against Meneses is still pending.

An important question in this matter, as the Mercury News articles noted, is how Meneses was able to enter the United States repeatedly, despite the various investigations of him for drug trafficking. We requested all immigration files on Meneses, but they provide only sketchy details about his entries into the United States. When he began cooperating with the DEA in Costa Rica, he obtained several visas with DEA assistance to travel to the United States to work on undercover cases. According to Meneses' friends and associates, he often entered the United States with false passports, and we found evidence that he had access to such fraudulent documents.

In sum, we found significant evidence that Meneses was a large-scale drug trafficker who was pursued by federal authorities for many years. None of these cases resulted in his successful prosecution in the United States, although he is still under indictment here. The failure to prosecute Meneses successfully was caused in part by insufficient resources devoted to a targeted effort against him, problems of communication and coordination between and within law enforcement offices, and a vacillation as to whether Meneses should be considered a target or an informant. We did not find that any of these actions were taken for improper purposes, as a result of political considerations, or because of the influence of the CIA or other national security entities.

#### **IV. OIG Analysis of Allegations Regarding Blandon's and Meneses' Relationship with the Contras and the CIA**

In investigating the allegations in the Mercury News articles and how the Department of Justice handled the investigations of Blandon and Meneses, we came across considerable information touching on their alleged connections to the Contras and the CIA.

According to the Mercury News articles, information in a 1990 trial against deputy sheriffs from the LASD for corruption "indicates that the drug ring of former Nicaraguan government official Danilo Bandon was connected to the CIA and efforts to launder drug money to finance anti-communist Nicaraguan rebels." During this trial, the prosecutors filed a motion attempting to preclude the defense from raising the claim that the CIA was involved in laundering drug money, not because the prosecutors believed there was any basis for such a claim, but because the claim was irrelevant to the issues at trial. The court granted the government's request, stating that it "could not conceive of any theory under which that evidence would be admissible" and calling defense counsel's behavior "very unprofessional." We reviewed the documents related to this defense claim, including documents seized from Bandon's and Lister's residences during the 1986 LASD searches, and found that they did not prove the claim made by the defense counsel.

The Mercury News asserted that Bandon, in testifying before a federal grand jury in San Francisco in 1994, "implied that his cocaine sales were, for a time, CIA-approved." Although Bandon's statement in the grand jury was subject to misunderstanding because of the way he expressed himself, the transcript of the proceeding does not support the conclusion that Bandon's drug dealing was connected to the CIA.

In reviewing FBI and DEA files on Bandon and Meneses, we found some reports containing rumors that Bandon, Meneses, or their associates may have been connected to the CIA. These records also indicate that when the DEA or FBI contacted the CIA about such claims, it responded that there was no such relationship and that it had no objection to the prosecution of these individuals. Our investigation found no evidence reflecting that either Bandon or Meneses was in fact connected to the CIA.

In addition to interviewing Bandon and Meneses, we interviewed many people connected to Meneses or Bandon concerning their alleged drug dealing on behalf of the Contras. These accounts were conflicting but generally indicated that Bandon and Meneses engaged in large-scale drug trafficking in the 1980s and also provided some modest monetary support for the Contras. How much they contributed to the Contras is unclear. We believe, based on the evidence we gathered, that their role in the Contras was marginal. Both gave some proceeds from their drug trafficking to the Contras in the early 1980s, but the monetary amounts appear to be relatively insignificant compared to the money they made in drug trafficking.

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## V. Ronald Lister

Ronald Lister is a former police officer in Southern California who opened a security business after leaving the police department in 1980. According to Lister, his business provided physical security both in the United States and abroad, and he also attempted to sell weapons in the United States and abroad. In the early 1980s, he met Blandon in Los Angeles and trafficked drugs with Blandon's organization. Through Blandon, Lister attempted to sell weapons to the Contras.

The Mercury News articles suggested that Lister was not investigated for his illegal activities in the mid-1980s because of alleged ties to the CIA and the Contras, and that when he was ultimately prosecuted for his drug trafficking activities, he received inappropriately lenient treatment. As noted above, Lister's residence was searched during the 1986 LASD raids of the Blandon organization, and documents were seized concerning Lister's activities. We found that these documents largely corroborate his account that he was seeking to sell military and security equipment and weaponry to the Contras and factions in El Salvador. However, we found no evidence that he was successful in this venture. Moreover, apart from the fact that Lister's link to the potential Contra market for his weapons was through Blandon, Lister's drug trafficking activities do not appear to have been conducted for the benefit of the Contras.

We also found that Lister made comments to the deputy sheriffs who searched his home in the 1986 raids concerning an alleged affiliation with the CIA. We did not find that he had any such affiliation. Rather, such comments were part of a pattern of deception that Lister engaged in for years when attempting to shield his illegal activities.

We found that Lister's claims of a CIA connection did not affect how he was treated by law enforcement authorities and that he did not receive any benefit or protection because of his alleged ties to the Contras or the CIA. Lister was not prosecuted in 1986 after the LASD raids because no drugs or illegal weapons were found in the search. The IRS nevertheless pursued a tax case against Lister, eventually resulting in his conviction in 1991.

In addition, in 1990 Lister was arrested by the DEA for selling cocaine to an undercover DEA agent. As a result of this arrest, he agreed to plead guilty to a drug charge and cooperate with the government against Blandon and others. But Lister was rearrested after he was released on bail and the government discovered that he was continuing to engage in illegal activities. Lister again claimed an affiliation with the CIA in an attempt to obtain a reduced sentence. He also alleged that the government was not prosecuting the people Lister identified as drug traffickers because of "national security" and political reasons. The prosecutors refused to agree to any reduction in his sentence, as he requested, labeling his claims ridiculous. We also found no substance to these claims.

In an interview with the OIG, Lister initially denied ever claiming any CIA affiliation, then admitted claiming such an affiliation in the past in an attempt to get law enforcement authorities to "back off." Lister's admission to us about the falsity of his claims was consistent with the information we received



from many of the people whom we interviewed about Lister, including the law enforcement authorities who investigated and prosecuted him. They labeled him as a con artist and told us that they did not take him or his claims of CIA affiliation seriously.

## VI. Ricky Ross

Ricky Ross was a central figure in the Mercury News articles. The articles suggested that, because of drugs supplied to Ross by Blandon, Ross was the source of the crack epidemic in Los Angeles and perhaps throughout the country. The articles also suggested that crack cocaine was not available in South Central Los Angeles until Blandon and Ross brought it there and that Ross established the first ties between dealers in South Central Los Angeles and Colombian suppliers.

In attempting to analyze these claims, we interviewed many of the subjects of the articles, including Ross and Blandon. We talked to social scientists and law enforcement officials, and we reviewed social science literature, data from law enforcement agencies, and data from federal public health organizations in order to understand Ross' and Blandon's roles in the emergence of crack. Based on our review, we concluded that the facts do not support the suggestion in the articles.

It appears that Ross became involved in drug trafficking in 1981 or 1982. Blandon probably began supplying Ross with cocaine in late 1983 or early 1984. The amount that Blandon initially supplied Ross was small, but increased over time, particularly after Blandon gained access to a Colombian supplier around 1985. We could not determine with precision how much cocaine Ross sold in total, or how much Blandon provided to Ross, since their estimates varied widely. However, during Ross' testimony at a trial in 1991, he estimated that he sold roughly 2,000 to 3,000 kilograms (approximately two to three tons) over the seven-year period he dealt drugs. Blandon estimated in a conversation with an informant that he sold 2,000 to 4,000 kilograms of cocaine to black drug dealers. While these estimates involve a massive amount of drugs, it clearly was not enough to spark the crack epidemic. To put it in perspective, the DEA estimated that 44 tons of cocaine entered the United States in 1980 alone, and 40 to 48 tons in 1981, well before Blandon began supplying Ross.

Furthermore, there were many cocaine traffickers who dealt in larger quantities of cocaine than Ross. Ross was not the first crack dealer in Los Angeles, and he admitted that a number of dealers competed with him there. Ross also was not the only dealer in Los Angeles with a Colombian connection. In addition, Blandon was selling cocaine to Ross at generally prevailing rates for cocaine, not significantly discounted prices as suggested by the Mercury News. By the time that Ross' operation reached its peak -- in 1985 according to Ross -- crack was prevalent in South Central Los Angeles and many other dealers were vying for a share of this market. In short, although Ross and Blandon certainly contributed to the crack epidemic in South Central Los Angeles, we did not find that they were singularly or primarily responsible for it.

Ross told the Mercury News that, "I'm not saying I wouldn't have been a dope dealer without Danilo [Blandon]," but claimed he would not have been as big a dealer. This is far from clear. Blandon was

certainly a major supplier for Ross, but there were plenty of others. Ross was an ambitious entrepreneur who thrived in optimal market conditions: the Colombian cocaine glut had reduced cocaine prices, and crack was well-suited for cheap, easy production and simple, ready-to-use distribution. These factors were more responsible than anything else for the rise of crack cocaine, and they were not a creation of Ross, Blandon, or any other individual.

With regard to the suggestion in the Mercury News that Blandon and Ross were responsible for the spread of crack cocaine across the country, we concluded that this is pure hyperbole. It is not possible to pinpoint the manner in which crack cocaine spread throughout the United States, and any efforts to explain this so simply are dubious. Experts still do not agree on where crack originated or the cause of its rise. In addition, Ross' own accounts of the quantities of cocaine he sold and when he sold it in different cities reveal that the amounts were not significant enough to have created a crack crisis in those cities and that crack was already available when he began to supply it.

We also examined the investigations and prosecutions of Ross by law enforcement authorities. Ross was initially investigated by the LASD and local police, who established a task force targeting him in 1987, which became known as the "Freeway Ricky Task Force." Their efforts to prosecute Ross were unsuccessful because of misconduct by members of the task force. As a result of their investigation, however, Ross decided to move to Cincinnati in 1987.

Ross continued to deal drugs from Cincinnati, and a number of jurisdictions pursued investigations of him. In 1989, he was indicted on federal drug charges in Cincinnati. He pled guilty to a drug conspiracy count and agreed to cooperate with authorities in Los Angeles who were prosecuting LASD deputy sheriffs for corruption. Ross testified at a trial against the deputy sheriffs in Los Angeles in 1991, but the case ended with a hung jury. Several of the defendants later pled guilty after being offered favorable deals. As a result of his testimony in the corruption trial, Ross received a substantial reduction in his sentence -- he was sentenced to 51 months in prison rather than the 121 to 151 months specified by his plea agreement.

Ross was also convicted on state drug charges in Texas while serving his federal sentence, and he served an additional nine months in a Texas prison after finishing his federal sentence. Ross was paroled from the Texas prison in September 1994.

In March 1995, Ross was arrested in San Diego by the DEA when he attempted to sell 100 kilograms of cocaine to an undercover DEA officer in a deal Ross negotiated with Blandon, who was cooperating with the DEA. According to testimony at trial, Ross was targeted by the DEA after his release from prison when he contacted Blandon and sought to arrange a cocaine purchase. Ross' defense at trial was that he was entrapped by the government. The jury rejected his defense and convicted him. Because of the quantity of drugs Ross had sought to purchase, and because of Ross' two prior felony drug convictions in Cincinnati and Texas, he received a mandatory sentence of life in prison.

Ross claims that he was improperly targeted and arrested by the government in retaliation for his

cooperation in the 1991 corruption trial against the Los Angeles deputy sheriffs. As evidence of this, Ross stated that he was targeted by the DEA before he was even released from prison in September 1994. Our review did not support this contention, and the trial court also rejected Ross' claim. We found that the DEA did not initiate an investigation on Ross until after he contacted Bandon in October 1994 and indicated that he was interested in purchasing cocaine, shortly after Ross was released from prison.

The Mercury News articles also discussed a motion filed in Ross' trial by the prosecutor to preclude the defense from asserting that the CIA was involved with Bandon's sale of drugs for the Contras. The prosecutor said he filed the motion because he believed the claim had no basis in fact and was merely a calculated effort to deflect attention from the evidence of Ross' drug trafficking. Contrary to assertions in the Mercury News, the court denied the government's motion, stating "I don't see that the national security and the interests of the United States are greatly impinged by this." Ross' counsel did not raise the CIA issue at trial. After Ross' conviction, at the time of his sentencing in 1996, the CIA filed a declaration stating that it had identified no records regarding Ross and no records that the CIA had "any kind of a operational, contractual, or employment relationship with" Bandon, Meneses, or Lister. As discussed previously, we also found that there was no such relationship.

Ross also complained that he was a "little fish" who received a life sentence for his drug dealing, while Bandon was a "big fish" who received a light punishment. Although such claims of disparate treatment are subjective and highly charged, Ross can hardly be called a "little fish." Allegations that Bandon was a large-scale supplier of cocaine are certainly true; allegations that Ross was a simple street-level dealer are not. Bandon and Ross were both big distributors, similar to the relationship between a wholesaler and a major retailer in the legitimate business world.

Ross has also suggested a racial motivation to explain why Bandon received more lenient treatment than he did. While such a claim is often difficult to confirm or refute, we did not find evidence corroborating it. First, we note that Ross himself received a lenient sentence after his arrest in Cincinnati, when he cooperated with the government. Ross said to the OIG: "My whole time in prison I never seen anybody beside myself on the first deal that I got sell as much dope as Danilo and get probably the best deal that anybody ever got in America." (Emphasis added). In addition, according to the prosecutor and the DEA agent handling the Ross case, he was given an opportunity to reduce his sentence by cooperating against other drug traffickers after his arrest in San Diego in 1995, but they assessed his efforts as "self-serving and ineffectual."

In the end, the reason for the disparity between Bandon's and Ross' sentences was that the government moved for a downward departure for Bandon based on his substantial cooperation and made no such motion for Ross. While Bandon greatly assisted the government, Ross did not. We recognize, however, the perception that exists with respect to differing treatment of defendants, and the potential of allegations of bias that can be raised when reduction of sentences are granted to certain defendants but not others. For this reason, many U.S. Attorney's Offices have formed committees to consider whether it is appropriate to recommend reduced sentences, and to ensure that similarly-situated defendants are treated similarly. Such committees take important decisions out of the hands of a single prosecutor and increase the likelihood of equal treatment, as well as the perception of fairness. Although we do not

know if the use of such a committee would have resulted in any change in the Ross or Blandon cases, we believe that in general they will result in fairer and more consistent sentencing decisions, as well as enhancing the appearance of fairness.

## **VII. Enrique Miranda-Jaime**

The Mercury News articles found some support for the allegations of Contra drug trafficking and CIA complicity in it from the testimony of Enrique Miranda-Jaime (Miranda). In November 1991, Miranda was arrested in Nicaragua with Meneses for attempting to transport 764 kilograms of cocaine to the United States. Miranda testified at Meneses' trial in Nicaragua that Meneses had financed the Contras with the proceeds from cocaine trafficking. We interviewed Miranda in prison in Nicaragua, who repeated the claim that Meneses had sold cocaine for the Contras, stating also that it was done with the support of the CIA.

Miranda had no direct knowledge of, or ever witnessed, any of the events on which he based his allegations. We were unable to locate any documents that he said supported his claims. Moreover, he did not make claims about the CIA's involvement when he was debriefed by the DEA in 1996 after he had escaped from his Nicaraguan prison, entered the United States, and offered to work for the DEA as an informant. Our assessment of his assertions was similar to conclusions of the law enforcement officers who came in contact with him: he made provocative claims, without much support, perhaps in an attempt to gain release from prison and gain entry into the United States.

## **VIII. Julio Zavala**

The OIG investigated allegations reported in the Mercury News and elsewhere concerning the return by San Francisco federal prosecutors of approximately \$36,000 seized from Julio Zavala, a Nicaraguan drug trafficker who allegedly had ties to the Contras.

In 1982, a federal OCDETF task force targeted a drug trafficking organization in San Francisco. After a lengthy investigation, which included extensive wiretaps, the federal authorities arrested over 50 defendants and seized 555 pounds of cocaine. The case became known as the "Frogman Case," because some of the defendants were arrested in wetsuits while bringing cocaine ashore from a Colombian vessel in San Francisco Bay. Among the defendants later arrested in this case were Julio Zavala and Carlos Cabezas. At the time of Zavala's arrest, approximately \$36,000 was seized from Zavala's residence. Prior to trial, defense counsel filed a motion seeking depositions in Costa Rica to show that the money seized from Zavala was not the proceeds of drug trafficking but had been given to Zavala by the Contras. Along with his motion, defense counsel submitted documents from two individuals who claimed they were Contra officials in Costa Rica and had given Zavala \$45,000 to "promote the reinstatement of democracy in Nicaragua" within the United States. The court granted Zavala's counsel permission to take the depositions of individuals in Costa Rica to explore the source of the money.

After the court's ruling, the San Francisco Assistant United States Attorney (AUSA) handling the case

took steps to initiate travel to Costa Rica to take the depositions of the two Contra leaders. Through the State Department, the Costa Rica CIA Station learned about the proposed depositions. The Station mistakenly believed that one of the persons to be deposed was a former CIA asset, not the Contra leader who was identified in the document filed by defense counsel. As a result, an attorney in the CIA General Counsel's office met with the AUSA handling the case in San Francisco, after which the depositions were canceled and the money returned to Zavala. According to a memorandum from the CIA attorney, the CIA suggested that the depositions could cause damage to the CIA's image and program in Central America.

Recollections as to why the money was returned were hazy and conflicting. The AUSA said he remembered meeting with the CIA attorney and being told by the CIA attorney that the depositions would create an "uncomfortable situation" and that the CIA would be grateful if the depositions were dropped. The AUSA suggested that the CIA attorney raise the issue with supervisors in the U.S. Attorney's Office. The AUSA's supervisors, including the U.S. Attorney, do not remember any contact with the CIA about canceling the depositions or returning the money. The U.S. Attorney told us that the money was returned not because of any contact by the CIA, but because it was not cost effective to travel to Costa Rica to take the depositions and litigate the issue over \$36,000, the same explanation he provided in a letter to the editor of a local newspaper.

The CIA employees involved state that they do not recall having spoken to any representatives of the U. S. Attorney's Office, although this is contrary to documents contained in their own files. CIA records include a document, written by the CIA attorney at the time of the event, stating that the money was returned at the CIA's request.

Based on the conflicting recollections and the lack of contemporaneous documentation about the matter in the U.S. Attorney's Office, it was not possible for us to resolve why the money was returned. It is clear that the CIA believed that it had an interest in preventing the depositions, partly because it was concerned about an allegation that its funds were being diverted into the drug trade. The CIA discussed the matter with the U.S. Attorney's Office, the depositions were canceled, and the money was returned. The exact details of how this came about, and whether the cause was the cost of the depositions -- which was high compared to the amount at stake -- or the CIA's intervention, remain uncertain. In any event, the return of the money did not affect the criminal prosecution of Zavala, which resulted in his conviction and sentence of ten years in prison.

Finally, it was difficult to determine whether the money actually belonged to the Contras or was Zavala's drug proceeds. We concluded, based on the available albeit conflicting evidence, that Zavala or persons acting on his behalf fabricated the claim that it was Contra money rather than proceeds from drug trafficking. We concluded that Zavala engaged in a ploy to salvage some of his drug profits, and the strategy succeeded.

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## IX. Carlos Cabezas

Carlos Cabezas, one of Zavala's co-defendants, was also convicted of conspiracy to distribute cocaine in the Frogman case. In interviews with the OIG, he claimed that he and Zavala had trafficked in "Contra cocaine." Specifically, Cabezas alleged that between December 1981 and December 1982, he and Zavala smuggled cocaine from Costa Rica to the United States in baskets woven from cocaine-stuffed reeds, sold the cocaine in San Francisco, and returned the profits to the Contras. Cabezas also claimed that this "Contra Cocaine" enterprise operated under the supervision of the CIA.

We interviewed numerous people concerning Cabezas' claim, including Zavala, Cabezas' associates, and government agents and prosecutors who interviewed Cabezas during the Frogman case. We concluded that it was extremely unlikely that an arrangement such as Cabezas described existed, based on our assessment of Cabezas' credibility, his inconsistent claims about the enterprise, Zavala's and other co-conspirators' denials, and the fact that no evidence of such an arrangement emerged during the extensive wiretap investigation conducted by the federal authorities in the Frogman case. We also did not find support for Cabezas' claim of the CIA's involvement in cocaine trafficking, which he reported for the first time to the OIG, despite having spoken about the alleged Contra connection on several prior occasions. We found no evidence that the prosecution of Cabezas, or of Zavala, was anything less than aggressive, despite Cabezas' claims of ties to the CIA.

## X. Celerino Castillo

The Mercury News resurrected allegations made by former DEA agent Celerino Castillo that in the 1980s Ilopango Airport in El Salvador was used by Contras to facilitate drug smuggling flights with the knowledge and complicity of the CIA. Castillo also alleged that most of the Contras' funding came from drug trafficking and that his attempts to investigate Contra drug smuggling were stymied by DEA management, the U.S. Embassy in El Salvador, and the CIA. Castillo wrote in a book that when he was a DEA agent assigned to cover El Salvador from 1986 to 1990, he documented drug flights out of the Ilopango Airport in El Salvador and sent this information to DEA Headquarters, but that no action was taken.

The OIG found it difficult to evaluate Castillo's allegations because of their general nature, the passage of time, the refusal by some witnesses to be interviewed, and Castillo's refusal to be interviewed by the OIG except under unacceptable conditions. We nevertheless gathered information relevant to his claims from a number of sources, interviewed many persons connected to the allegations, and reviewed documents from DEA and CIA files related to his claims. We concluded that while some of Castillo's factual allegations had a seed of truth, the inferences he drew from these facts and his broad claims about a conspiracy by the CIA and the Contras concerning drug trafficking were not supported.

We found that, in 1986, Castillo did pass intelligence information to DEA Headquarters suggesting that some private pilots who used Ilopango Airport to supply the Contras may have been trafficking in drugs.

Sensitive covert operations regarding the supply of the Contras were also being conducted at the same time from Ilopango Airport, and Castillo's investigation of drug trafficking at Ilopango was closed.

Despite the existence of these facts, we did not corroborate Castillo's broad conclusions, particularly that the CIA and the Contras were involved in a conspiracy to smuggle drugs and to obstruct his investigation. The DEA did not have hard evidence to substantiate the charges about drug trafficking at Ilopango, and Castillo's own report about the matter stated that the U.S. Ambassador in El Salvador had permitted Castillo to investigate the claims about Ilopango, but requested that the investigation be discreet. While the CIA and the Embassy were undoubtedly uneasy about a DEA investigation at the airport, we did not find proof that it was because the CIA was involved with or knew about drug trafficking at the airport, as opposed to concerns about exposing ongoing covert operations.

Our assessment of Castillo's allegations was similar to that of a number of his DEA colleagues in Central America, as well as the FBI agent who interviewed him in connection with the Iran-Contra Office of Independent Counsel investigation: Castillo was quick to make accusations based on limited knowledge and little hard evidence, and the broad assertions he made were not supported by the evidence he advanced.

## **XI. DEA's Response to Information about Contra Drug Trafficking and Miscellaneous Cases**

We reviewed formal and informal transmission of intelligence information from the CIA to the DEA concerning allegations of drug trafficking by the Contras and DEA's response to this information. This review was designed to provide an overview of the relationship between the CIA and DEA and the type of information provided about alleged drug trafficking by Contra supporters rather than a comprehensive review of all such cases in which information was passed. We discuss information about certain cases of suspected trafficking by Contra supporters that was provided by the CIA to DEA and the response of DEA to that information. We also discuss miscellaneous cases, most notably that of John Hull, who has received significant attention over the years because of the claim that he was not prosecuted because of his alleged ties to the CIA.

## **XII. Conclusions**

It is rare that an investigation of this magnitude is prompted by a series of newspaper articles. We spent over 15 months and significant resources investigating the allegations suggested by San Jose Mercury News articles in August 1996. We did so because the allegations resonated with a substantial number of people and fueled suspicion that our system of criminal justice was corrupted by foreign policy considerations in a manner that would be extremely shocking if true.

The allegations contained an extremely volatile mixture, linking the activities of the intelligence community, support of the Contras in Nicaragua (easily the most controversial foreign policy initiative of the 1980s), the crack cocaine explosion, and the devastation of many of our inner cities by the crack epidemic. These allegations fed an already profound suspicion of the government that exists within our

inner cities and sparked widespread belief that the Contras were permitted to create massive drug enterprises in pursuit of a foreign policy initiative. More relevant to our inquiry, the allegations suggested that the pursuit of the policy of aiding the Nicaraguan Contras resulted in the manipulation of the criminal justice system, the protection of certain individuals by the CIA, and the failure of the Department of Justice to pursue investigations and prosecutions of these persons even though they were engaged in substantial drug trafficking activities.

We found that the allegations contained in the original Mercury News articles were exaggerations of the actual facts. Our investigation involved detailed reviews of the investigations and prosecutions of the various individuals who were at the center of the allegations contained in the original articles -- Danilo Bandon, Norwin Meneses, Ricky Ross, Ronald Lister, and others. We found that although the investigations suffered from various problems of communication and coordination, their successes and failures were determined by the normal dynamics that affect the success of scores of investigations of high-level drug traffickers: the availability of credible informants, the ability to penetrate sophisticated narcotics distribution organizations with undercover agents, the ability to make seizures of narcotics and other physical evidence, the availability of resources necessary to pursue complex cases against the key figures in narcotics distribution enterprises, and the aggressiveness and judgments of law enforcement agents. These factors, rather than anything as spectacular as a systematic effort by the CIA or any other intelligence agency to protect the drug trafficking activities of Contra supporters, determined what occurred in the cases we examined.

We also found that the claims that Bandon and Meneses were responsible for introducing crack cocaine into South Central Los Angeles and spreading the crack epidemic throughout the country were unsupported. Undoubtedly, Bandon and Meneses were significant drug dealers guilty of enriching themselves at the expense of countless drug users, as well as the communities in which those drug users lived, just as is the case with all drug dealers of any magnitude. They also contributed some money to the Contra cause. But we did not find that their activities were responsible for the crack cocaine epidemic in South Central Los Angeles, much less the rise of crack throughout the nation, or that they were a significant source of support for the Contras.

This is not to say that we did not find problems or ambiguities in the matters we examined. We found that Bandon received the benefit of a green card in a wholly improper manner. We found that during a period of time in the 1980s, the Justice Department was not certain whether it wanted to prosecute Meneses or use him as a cooperating witness to make cases against others. We found that part of the government was not anxious to have DEA agent Castillo openly probe the activities at Ilopango Airport because of sensitive covert operations there. We found that the CIA did in fact intervene in the Zavala case and may have played a role in having a sum of money returned to him. Although these findings are troubling, they are a far cry from the type of broad manipulation and corruption of the federal criminal justice system suggested by the original allegations.

We are well aware of the furor that these allegations created in communities throughout the country. We also recognize that it is impossible to draw conclusions about these questions with absolute certainty because of the age of the cases involved, faded memories, the dispersion of witnesses and evidence, and



the special interests of many of the people we interviewed. We are also realistic enough to recognize that the suspicion of federal law enforcement will not be extinguished by our report on these allegations, especially because there remain some unanswered questions, which are multiplied when the investigation takes place so long after the events being investigated. Nevertheless, we believe that a full consideration of the results of our investigation will show that we have conducted an exhaustive review of these allegations and that our findings are supported by the evidence.

Michael R. Bromwich  
Inspector General

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# **THE CIA-CONTRA-CRACK COCAINE CONTROVERSY: A REVIEW OF THE JUSTICE DEPARTMENT'S INVESTIGATIONS AND PROSECUTIONS**

## **Chapter I: Introduction**

### **A. The San Jose Mercury News Articles**

On August 18, 1996, the San Jose Mercury News published the first installment of a three-part series of articles concerning crack cocaine, the Central Intelligence Agency (CIA), and the Nicaraguan Contra army. The introduction to the first installment of the series read:

For the better part of a decade, a San Francisco Bay Area drug ring sold tons of cocaine to the Crips and Bloods street gangs of Los Angeles and funneled millions in drug profits to a Latin American guerrilla army run by the U.S. Central Intelligence Agency, a Mercury News investigation has found.

This drug network opened the first pipeline between Colombia's cocaine cartels and the black neighborhoods of Los Angeles, a city now known as the "crack" capital of the world. The cocaine that flooded in helped spark a crack explosion in urban America . . . and provided the cash and connections needed for L.A.'s gangs to buy automatic weapons.

The three-day series of articles, entitled "Dark Alliance: The Story Behind the Crack Explosion," told the story of a Los Angeles drug operation run by Ricky Donnell Ross, described sympathetically as "a disillusioned 19-year-old . . . who, at the dawn of the 1980s, found himself adrift on the streets of South-Central Los Angeles." The Dark Alliance series recounted how Ross began peddling small quantities of cocaine in the early 1980s and rapidly grew into one of the largest cocaine dealers in southern California until he was convicted of federal drug trafficking charges in March 1996. The series claimed that Ross' rise in the drug world was made possible by Oscar Danilo Blandon and Norwin Meneses, two individuals with ties to the Fuerza Democratica Nicaraguense (FDN), one group comprising the Nicaraguan Contras. Blandon and Meneses reportedly sold tons of cocaine to Ross, who in turn converted it to crack and sold it in the black communities of South Central Los Angeles. Blandon and Meneses were said to have used their drug trafficking profits to help fund the Contra army's war effort.

Stories had previously been written about the Contras' alleged ties to drug trafficking. For example, on December 20, 1985, an Associated Press article claimed that three Contra groups "engaged in cocaine trafficking, in part to help finance their war against Nicaragua." Rumors about illicit activities on the part of the Contras had also been probed in Senate hearings in the late 1980s. However, the Mercury News series contained -- or at least many readers interpreted it to contain -- a new sensational claim: that the CIA and other agencies of the United States government were responsible for the crack epidemic that ravaged black communities across the country. The newspaper articles suggested that the United

States government had protected Blandon and Meneses from prosecution and either knowingly permitted them to peddle massive quantities of cocaine to the black residents of South Central Los Angeles or turned a blind eye to such activity.

The Mercury News later proclaimed that the article did not make these allegations. However, notwithstanding the Mercury News' proclamations, involvement by the CIA and the United States government in the crack crisis was implied through oblique references and the juxtaposition of certain images and phrases in the Dark Alliance articles: the Contras, who purportedly received drug money from Blandon and Meneses, were referred to as the "CIA's army" and links between the CIA and the leadership of the Contra movement were repeatedly emphasized throughout the articles; the stories reported how investigations into Blandon's cocaine operation conducted by the Drug Enforcement Administration (DEA) were allegedly dropped without cause or shunted aside for unexplained reasons; the articles told how United States prosecutors invoked the Classified Information Procedures Act (CIPA) to prevent certain testimony concerning Blandon from being presented to a jury in the interest of national security during Ross' federal trial; and, from August 1996 until October 1996, the image of a crack smoker silhouetted against the emblem of the CIA was emblazoned on the Mercury News web page carrying the Dark Alliance stories.

The news media picked up on the Mercury News series' insinuation and made it explicit in coverage of the series. On August 20, 1996, the headline of the first article to cover the Mercury News series, published by the Associated Press, stated, "Newspaper Alleges that CIA Helped Spark Crack Cocaine Plague." It was followed by other articles and editorials declaring that the crack cocaine crisis had been created by the CIA and/or agents of the United States government: "CIA's War Against America," (Palm Beach Post, September 14, 1996); "The U.S. Government Was the First Big Crack Pusher," (Boston Globe, September 11, 1996); "Thanks to the U.S. Government, Oscar Blandon Reyes is Free and Prosperous Today; One Man is Behind L.A. Tide of Crack," (Pittsburgh Post Gazette, September 16, 1996).

Critics and commentators would later debate whether the Mercury News articles in fact accused the United States government of being responsible for the nation's crack cocaine epidemic. In an October 2, 1996, Washington Post article, Gary Webb, the reporter who wrote the Dark Alliance series, asserted that the article had not claimed that the CIA knew about Blandon's drug trafficking. The Washington Post article quoted Webb as saying, "We've never pretended otherwise . . . This doesn't prove the CIA targeted black communities. It doesn't say this was ordered by the CIA. . . Essentially, our trail stopped at the door of the CIA. They wouldn't return my phone calls." Webb would say as late as June 22, 1997, in an interview with The Revolutionary Worker, "We had The Washington Post claim that the stories were insinuating that the CIA had targeted Black America. It's been a very subtle disinformation campaign to try to tell people that these stories don't say what they say. Or that they say something else, other than what we said. So people can say, well, there's no evidence of this, you know . . . You say, well, this story doesn't prove that top CIA officials knew about it. Well, since the stories never said they did, of course they don't."<sup>(1)</sup>

According to The Washington Post, Mercury News editor Jerry Ceppos stated that he was troubled by

the interpretive leap many people made about the article's claims of CIA involvement in the growth of crack cocaine. Ceppos was quoted as saying, "Certainly talk radio in a lot of cities has made the leap. We've tried to correct it wherever we could . . . People [have been] repeating the error again and again and again." Approximately a month and a half after the Dark Alliance series was posted on the Mercury News website, the newspaper changed the introduction to the articles, in apparent recognition that certain wording had contributed to the misunderstanding. Rather than stating:

For the better part of a decade, a Bay Area drug ring sold tons of cocaine to the Crips and Bloods street gangs of Los Angeles and funneled millions in drug profits to a Latin American guerilla army run by the U.S. Central Intelligence Agency . . .

the Dark Alliance website introduction was altered to read:

The Mercury News published a three-part series in late August that detailed how a San Francisco Bay Area drug ring sold tons of cocaine to the street gangs of South-Central Los Angeles in the 1980s, sending some of the millions in profits to the Contras. The series never reported direct CIA involvement, although many readers drew that conclusion.

Regardless of the intent of the Mercury News, the accusation of government involvement in the crack epidemic had taken root. This dramatic interpretation of the series continued to build with ferocious velocity, especially in black communities, as the Mercury News story attracted the attention of newspapers across the country.

Throughout September 1996, the Dark Alliance series was published in one newspaper after another: the Raleigh News and Observer ran the articles on September 1, 1996; the Denver Post published them on September 13, 1996; the Pittsburgh Post Gazette ran them on September 15, 1996; and so on. While many other newspapers did not publish the Dark Alliance series, they carried stories about the sensation created by the series' claims. The story garnered further exposure from television and radio talk show appearances by Gary Webb. Ricky Ross' attorney, Alan Fenster, also made several appearances on television shows to assert that the government, not his client, was responsible for cocaine dealing in South Central Los Angeles.

Many African-American leaders were particularly troubled by the articles, mindful of the frequency with which young black men were being incarcerated for drug offenses. If the Mercury News was right, it appeared that the same government that was arresting so many black men had played a role in creating the drug crisis that precipitated their arrest. This point was emphasized by the Mercury News' Dark Alliance series, which included articles entitled, "War on drugs has unequal impact on black Americans; Contras case illustrates the discrepancy: Nicaraguan goes free; L.A. dealer faces life"; and "Flawed sentencing the main reason for race disparity; In 1993, crack smokers got 3 years; coke snorters got 3 months." The president of the Los Angeles chapter of the NAACP issued the following statement in response to the Dark Alliance series: "We believe it is time for the government, the CIA, to come forward and accept responsibility for destroying human lives." In a letter dated August 30, 1996,

Representative Maxine Waters (D-Calif.) requested that the Department of Justice (DOJ) and the House Judiciary Committee conduct investigations of the allegations. The Congressional Black Caucus and many leaders in the black community also insisted upon an investigation into the charges raised by the Mercury News.

## **B. The Contra Story**

As noted above, the Mercury News series was not only a story about the United States government and crack cocaine. It also revisited allegations concerning the Contras and drug trafficking that has been reported upon and investigated for many years. In 1987, the Subcommittee on Terrorism, Narcotics, and International Operations of the Senate Committee on Foreign Relations began an investigation focusing on allegations received by the subcommittee chairman, Senator John Kerry, concerning illegal gun-running and narcotics trafficking associated with the Contras. A two-year investigation produced a 1,166-page report in 1989 analyzing the involvement of Contra groups and supporters in drug trafficking, and the role of United States government officials in these activities. Allegations of cocaine trafficking by Contras also arose during the investigation conducted by Independent Counsel Lawrence Walsh into the Iran-Contra affair. Drug trafficking allegations, however, were not the focus of that inquiry and the Walsh report included no findings on these allegations.

The issue of drug trafficking by the Nicaraguan Contras has also been the subject of books: e.g., On Bended Knee: The Press and the Reagan Presidency, by Mark Hertsgaard, 1989; Cocaine Politics: Drugs, Armies, and the CIA in Central America, by Peter Dale Scott and Jonathan Marshall, 1991. It was also reported upon in the news media. Following the December 1985 piece mentioned above from the Associated Press, the San Francisco Examiner ran stories in 1986 about Norwin Meneses, Carlos Cabezas (an individual with links to Contra organizations who was convicted in the mid-1980s of drug charges), and drug trafficking by the Contras.

It is undisputed that individuals like Meneses and Blandon, who had ties to the Contras or were Contra sympathizers, were convicted of drug trafficking, either in the United States or Central America. There is also undeniable evidence that certain groups associated with the Contras engaged in drug trafficking. The pervasiveness of such activities within the Contra movement and the United States government's knowledge of those activities, however, are still the subject of debate, and it is beyond the scope of the OIG's investigation, which we describe below. Yet it is noteworthy that, as interesting as the story of Contras and illicit drug deals may be, it was not the catalyst for the public's or the media's interest in the Dark Alliance series. Investigations into the alleged connection between Contras and cocaine dealing were conducted and articles were printed in the late 1980s, at a time when interest in the Iran-Contra story was cresting. Neither those investigations nor the published articles tracking the allegations sparked a firestorm of outrage comparable to that created by the Dark Alliance series. The furor over the Mercury News series was driven by the allegations of the government's complicity in cocaine deals within black communities. If the Dark Alliance series had been limited to reporting on Contras, it seems unlikely that the groundswell of press and public attention would have occurred.

## C. Reaction from the Journalism Community

Notwithstanding the Mercury News' explosive allegations, the series did not receive extensive coverage from major newspapers in either August or September 1996. The Los Angeles Times briefly discussed the Mercury News series in several articles in August and September 1996 that covered Ross' postponed sentencing and other events in the Ross trial. Similarly, the Dark Alliance series did not initially receive much television coverage. With the exception of CNN, which ran several pieces on the story in September, and the NBC Nightly News, which ran a piece about the allegations on September 27, 1996, the story received little national television news coverage. By early October 1996, however, that changed.

The Washington Post weighed in first on October 2, 1996, with a short analysis -- "Running with the CIA Story: Reporter Says Series Didn't Go as Far as Readers Took It" -- noting that the allegation of CIA involvement in drug trafficking in the United States had not actually been made in the article. The Washington Post followed-up two days later, on October 4, 1996, with a story entitled, "The CIA and Crack: Evidence Is Lacking of Alleged Plot." The Washington Post piece concluded that "available information does not support the conclusion that the CIA-backed Contras -- or Nicaraguans in general -- played a major role in the emergence of crack as a narcotic in widespread use across the United States." The Washington Post article mainly addressed the Mercury News series' claims about Ross' and Bandon's roles in the growth of crack cocaine. It did not, for the most part, wrestle with the series' claims about drug dealing by the Contras. The Washington Post noted that the series had been selective in its use of Bandon's testimony to support its claims:

The Mercury News uses testimony from Bandon in establishing that Nicaraguans selling drugs in California sent profits to the Contras. But if the whole of Bandon's testimony is to be believed, then the connection is not made between Contras and African American drug dealers because Bandon said he had stopped sending money to the contras by [the time he began selling to Ross].

And if Bandon is to be believed, there is no connection between Contras and the cause of the crack epidemic because Bandon said Ross was already a well-established dealer with several ready sources of supply by the time he started buying cocaine from Bandon.

The Washington Post piece also emphasized apparent contradictions between Ross' and Bandon's accounts. For example, while Bandon claimed to have been a used car salesman in 1982 who on the side sold two kilograms of cocaine for Meneses, Ross said Bandon was instead handling bulk sales of 100 kilograms of cocaine for Meneses at the time. The article did not seek to resolve these issues and merely noted the conflicts.

The Washington Post piece was followed on October 20 and 21, 1996, by two New York Times articles that also found fault with the Mercury News series. One article, "Though Evidence Thin, Tale of CIA and Drugs Has Life of Its Own," primarily reported on the reactions within the black community to the

series. The other article, "Pivotal Figure of Newspaper Series May Be Only Bit Player," noted problems with the series' portrayal of Blandon and Meneses. It concluded, after conducting interviews of various unnamed sources:

[W]hile there are indications in American intelligence files and elsewhere that Mr. Meneses and Mr. Blandon may indeed have provided modest support for the rebels, including perhaps some weapons, there is no evidence that either man was a rebel official or had anything to do with the C.I.A. Nor is there proof that the relatively small amounts of cocaine they sometimes claimed to have brokered on behalf of the insurgents had a remotely significant role in the explosion of crack that began around the same time.

After reportedly assigning three editors and fourteen reporters to the story, the Los Angeles Times published its own three-part analysis of the Mercury News piece, which ran from October 20 to October 22, 1996. The Los Angeles Times concentrated on three claims raised by the Mercury News series: 1) that a drug ring related to the CIA had sent millions of dollars to the Contras; 2) that the same drug ring had created a cocaine epidemic in South Central Los Angeles and other United States cities, and 3) that the CIA had approved a plan for the ring to raise money for the Contras through drug trafficking or had deliberately turned a blind eye to the drug ring's activities. The Los Angeles Times found that "the available evidence, based on an extensive review of court documents and more than 100 interviews in San Francisco, Los Angeles, Washington and Managua, fails to support any of those allegations."

The first installment of the Los Angeles Times series was devoted to a discussion of the origins of crack cocaine. It found that crack cocaine existed in Los Angeles long before Ross began selling it. In response to the claim that Ross had played a principal role in bringing cocaine to South Central Los Angeles, it identified several drug dealers from South Central Los Angeles who were contemporaries of Ross and were reputed to have sold similar quantities of cocaine.

The second installment of the Los Angeles Times series explored whether there was in fact a CIA-sanctioned operation that funneled millions of dollars into the Contras. It found no proof that Blandon and Meneses had given millions of dollars to the Contra party and could confirm only that Blandon had given about \$50,000. Indeed, the Los Angeles Times article concluded that the Mercury News had arrived at its million-dollar estimate of Meneses' and Blandon's donations based on its own calculations derived from "the volume of cocaine that they were selling, and Blandon's statement that what he sold, he gave to the Contras."<sup>(2)</sup> Rejecting the Dark Alliance assertion that Blandon had sent profits to the Contras from 1981 to 1986, the Los Angeles Times found, based upon Blandon's testimony, that he had sent profits to the Contras in only one year. The second installment of the Los Angeles Times series also suggested, based on interviews with various CIA officials and former government officials, that CIA involvement in such a scheme was improbable. But the article quoted the chief investigator for Senator Kerry's subcommittee investigation, Jack Blum, as saying that, while the CIA did not have agents selling drugs to fund the Contras, the United States government may have opened channels that helped drug dealers bring drugs into the United States and protected them from law enforcement.

The last installment of the Los Angeles Times series examined the reaction in black communities to the series, particularly the proliferation of conspiracy theories.

The Los Angeles Times, New York Times, and Washington Post articles were criticized by some who believed that the mainstream press was attempting to minimize a story that it had failed to cover. Some accused the papers of erecting strawmen by accusing the Mercury News of making allegations that it had not in fact made: e.g., that the CIA "targeted" communities into which crack cocaine was distributed. Others stated that the major papers had committed the same mistakes it criticized the Mercury News of making: e.g., selectively picking from among available information to support their conclusions, crediting information provided by suspicious sources, and failing to evaluate contradictory evidence.<sup>(3)</sup>

Despite the major newspapers' mounting criticism of the Dark Alliance series, the Mercury News continued to defend its story. However, in the meantime the paper launched its own investigation of the claims made by the Dark Alliance series. On May 11, 1997, Jerry Ceppos, the Executive Editor of the Mercury News, published the results of the newspaper's analysis of its own series. Ceppos wrote that the story had four short-comings: 1) it presented only one side of "complicated, sometimes-conflicting pieces of evidence"; 2) it failed to identify the estimate of Blandon's financial contributions to the Contra movement as an "estimate"; 3) it "oversimplified the complex issue of how the crack epidemic in America grew," and 4) it contained imprecise language and graphics that fostered the misinterpretation concerning the CIA and crack dealing. Ceppos attributed some of these problems to the newspaper's failure to present conflicting evidence that challenged its conclusions. The column also revealed that the same debate over the correct interpretation of the Mercury News' conclusions found in the press also existed in the Mercury News newsroom:

The drug ring we wrote about inflicted terrible damage on inner-city Los Angeles, and that horror was indeed spread to many other places by L.A. gangs. Webb believes that is what our series said. I believe that we implied much more, that the ring was the pivotal force in the crack epidemic in the United States. Because the national crack epidemic was a complex phenomenon that had more than one origin, our discussion of this issue needed to be clearer.

Some of the reporting on Ceppos' column by the major newspapers failed to recognize that it was not intended as a repudiation of the entire Dark Alliance series. Rather, it was a limited admission that portions of the story had been misleading and should have been subjected to more rigorous editing. Ceppos specifically did not disclaim what he believed were the articles' central allegation -- that a drug ring "associated with the Contras sold large quantities of cocaine in inner-city Los Angeles in the 1980s at the time of the crack explosion there" and that "some of the profits went to the Contras." It is noteworthy, however, that the facets of the article about which Ceppos had the greatest reservations were the articles' most sensational claims -- the way crack cocaine spread in the United States, and the ties between the CIA and the spread of crack.



## D. What Did the San Jose Mercury News Articles Allege?

It is difficult to discern which allegations the Mercury News intended to make, in large part because the series is replete with innuendo and implication that verge on making assertions that are in fact never made. Many readers interpreted the series to assert that the CIA and other agencies of the United States government had intentionally funneled crack cocaine into black communities by either permitting or endorsing cocaine trafficking by Blandon and Meneses. Others interpreted the Dark Alliance series to charge that the spread of crack cocaine was the unintended -- but proximate -- result of actions taken by the United States government to promote the Contra war effort. While the series does not allege that there was a deliberate plan to target black communities by the CIA or other agencies of the United States government mentioned in the article (e.g., DEA, U.S. Attorney's Offices, and the Immigration and Naturalization Service (INS)), the articles strongly imply such a plot.

First, the title of the series, "Dark Alliance," is itself ambiguous, since the series fails to identify the parties to the purported "alliance." One interpretation is that it refers to the link between Blandon and Ross. However, another interpretation, bolstered by the repeated mention of the CIA throughout the series, is that the title refers to an agreement between the CIA and drug-trafficking Contras. The web page bearing the "Dark Alliance" title and the image of a crack smoker silhouetted against the CIA emblem strengthened the insinuation. The Dark Alliance story also included leaps of logic that suggested direct CIA involvement in Blandon's trafficking activities. For example, the article notes: "The most Blandon would say in court about who called the shots when he sold cocaine for the FDN was that 'we received orders from the -- from other people.'" An explanation of how the CIA created the FDN from various anti-communist factions immediately follows the quote. The writer's implication is patent: the CIA was giving "orders" to the FDN about cocaine deals.

One oft-quoted portion of the articles relates to a meeting that allegedly occurred in Honduras among Meneses, Blandon, and Enrique Bermudez, a leader of the FDN's military effort. The preceding paragraph in the article recounted how cocaine "has spread across the country . . . turning entire blocks of major cities into occasional war zones." The paragraph that immediately followed reads:

"There is a saying that the ends justify the means," former FDN leader and drug dealer Oscar Danilo Blandon Reyes testified during a recent cocaine trafficking trial in San Diego. "And that's what Mr. Bermudez (the CIA agent who commanded the FDN) told us in Honduras, OK? So we started raising money for the Contra revolution."

The implication of this paragraph, made through its juxtaposition to the discussion of black communities ravaged by cocaine, is that a "CIA agent" decided to raise money for the Contras by any means, including by selling cocaine in black communities. It is noteworthy that the parenthetical reference to Bermudez as a "CIA agent who commanded the FDN" was added by the Mercury News and was not a statement actually made by Blandon. The parenthetical underscores reputed ties between Bermudez and the CIA.

The specter of a government-wide plan to target black communities is raised throughout the article in other ways, but mostly through innuendo. The subtext of the article seems to be: If there was no government plot, why else would an Assistant U.S. Attorney prevent evidence relating to Blandon's drug trafficking from being raised in open court under the claim of protecting classified information during a 1990 federal trial?; how else would Blandon have escaped more vigorous prosecution by the Department of Justice or other prosecutor's offices for drug trafficking?; why else would federal agents descend upon the Los Angeles Sheriff's Department to claim evidence obtained in a search of Blandon's home in 1986?; and how else would Meneses escape arrest and prosecution in the United States or be allowed by the INS to freely enter and exit the country? While the allegation of a deliberate government plan was not explicitly made, the drumbeat of questions insinuated a multi-agency, government scheme designed to protect Blandon's illegal activities, which "opened the first pipeline between Colombia's cocaine cartels and the black neighborhoods of Los Angeles."

The Mercury News stated repeatedly that the series was not intended to allege a deliberate government scheme to use cocaine dealing in black communities to finance the Contra effort, notwithstanding the logical inference that could be drawn from the series' substance. But while it is true that the articles did not explicitly allege a government conspiracy, the path charted by the Dark Alliance series' trail of implications led to that conclusion. In fact, a prophetic editorial that appeared in the Mercury News on August 21, 1996, the day after the Dark Alliance series finished running in the paper, made just that point. It read:

[T]he CIA-Contra story can only feed longstanding rumors in black communities that the U.S. government "created" the crack cocaine epidemic to kill and imprison African-Americans and otherwise wreak havoc in inner cities.

At times, the Mercury News sent conflicting messages that confounded attempts to correct misconceptions about the article. While the newspaper was disavowing allegations of CIA involvement in the spread of crack, the articles' author was making public comments to the contrary. In an article entitled, "The CIA-crack connection: The story nobody wants to hear: Your worst fears are true -- the CIA did help to smuggle drugs into American ghettos, says an investigative reporter," Webb was asked whether his story had confirmed the suspicion within the black community "that the crack cocaine epidemic might be part of a government conspiracy." He replied:

It confirms the suspicion that government agents were involved. Clearly, when you're talking about drug dealers meeting with CIA agents it does go a long way toward validating this suspicion. There's a grain of truth to any conspiracy theory and it turns out there are a lot of grains of truth to this one. If you want to stretch it to its logical conclusion, the government was involved in starting the crack epidemic, because it was this pipeline that did it. Now we know what we didn't know in the '80's -- which is where they were selling the stuff. We were able to close the circle and show how this affected American citizens, whereas before it was some sort of nebulous foreign policy story. Now we can see the damage. Whether or not these guys were part of our government or just contract agents is unclear.

Further, the newspaper itself was sending mixed messages. An August 21, 1996, Mercury News editorial supported claims of CIA or United States government involvement. The editorial, entitled "Another CIA disgrace: Helping the crack flow," stated:

It's impossible to believe that the Central Intelligence Agency didn't know about the Contras' fund-raising activities in Los Angeles, considering that the agency was bankrolling, recruiting and essentially running the Contra operation. The CIA has a long history of embarrassing the country it is supposed to work for, from the Bay of Pigs in Cuba to the jungles of Vietnam. But no action that we know of can compare to the agency's complicity, however tacit, in the drug trade that devastated whole communities in our own country.

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1. In contrast, Webb has made other statements all but stating that the Dark Alliance series did demonstrate CIA involvement in the spread of crack in America. In September 1996, in the immediate wake of the Dark Alliance series, Webb reportedly posted the following comment on the Mercury News electronic bulletin board: "One thing I did want to respond to directly is the writer who claimed there wasn't any 'proof ' of CIA involvement in this thing. That's like saying there's no proof of General Motors involvement in making Chevrolets. I also heard a great line while I was doing a radio show in Florida yesterday: `Now we know what CIA really stands for: Crack in America.'"
2. In a response to a May/June 1997 Columbia Journalism Review article analyzing the Mercury News series, Webb more specifically explained how he arrived at a figure, which he believed to be between \$12 million and \$18 million: "My stories were about the drug money [Blandon] admitted delivering to Meneses for the FDN. When you look at that cash, the sums are obvious. Blandon told a federal grand jury in 1994 that he sold between 200 and 300 kilos of cocaine for Meneses in L.A. In court, Blandon swore that all the profits from that cocaine went to the contras, and said he was selling it for \$60,000 a kilo ... Some might call it an extrapolation to describe \$12 million to \$18 million as 'millions.' I call it math."
3. See, e.g., Columbia Journalism Review, January-February 1997, at 33.

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## **E. Previous Investigations Concerning Allegations of Contra Drug Trafficking**

Allegations that the Contras were involved in the drug trade and that government agencies condoned or had knowledge of these activities are not new. DEA intelligence analyst Douglas Everett told the OIG that in the mid-1980s, DEA had heard rumors and had gathered some uncorroborated informant information about the involvement of the Nicaraguan Sandinista government in drug dealing but that the issue of the Contras did not come up until 1986.

However, in early 1986, around the time that the United States government was considering whether to fund the Contras again after a period of substantial restrictions on funding, allegations of Contra involvement in drug trafficking came to the forefront. Many of the allegations about the Contras came from a civil lawsuit filed in 1986 by journalists Tony Avrigan and Martha Honey against John Hull, Richard Secord, Albert Hakim, Pablo Escobar, Jorge Ochoa, and others for damage done to them by the defendants' alleged conspiracy to violate the Neutrality Act, 18 U.S.C. §§ 951 *et seq.* The complaint asserted that these defendants had smuggled weapons for the Contras through the Costa Rican ranch of United States citizen John Hull and then had smuggled drugs back through the ranch and into the United States, where they used the drug profits to purchase more weapons. This case was later dismissed when the defendants moved for summary judgment and the plaintiffs and their attorneys were fined for abuse of the judicial process.

As discussed above, in the spring of 1986, the Senate Foreign Relations Committee's Subcommittee on Narcotics, Terrorism, and International Operations began an investigation into the links between foreign policy, narcotics and law enforcement in connection with drug trafficking from the Caribbean and Central and South America to the United States. Part of this investigation included "a review of the drug links to the Contra movement and the Nicaraguan war."

The Senate Subcommittee concluded that the drug cartels posed a continuing threat to national security at home and abroad and that the United States has too often in the past allowed other foreign policy objectives to interfere with the war on drugs. The committee found that "it is clear that individuals who provided support for the Contras were involved in drug trafficking, the supply network of the Contras was used by drug trafficking organizations, and elements of the Contras themselves knowingly received financial and material assistance from drug traffickers." The report also found that the Department of Justice was slow to respond to allegations of links between drug traffickers and the Contras. The report stated that the Department of Justice denied there was any substance to the allegations even after a State Department report had been issued on the subject and despite FBI records "indicating involvement of narcotics traffickers in Contra operations and Neutrality Act violations."

The Subcommittee report concluded:

The war in Central America contributed to weakening an already inadequate law enforcement capability which was exploited easily by a variety of mercenaries, pilots and

cartel members involved in drug smuggling. In several cases, drug smugglers were hired by Contra organizations to move Contra supplies. In addition, individual Contras accepted weapons, money and equipment from drug smugglers.

The report also found that:

There are serious questions as to whether or not U.S. officials involved in Central America failed to address the drug issue for fear of jeopardizing the war effort in Nicaragua.

In April 1986, the State Department issued a report in conjunction with the Department of Justice and the CIA, entitled "Allegations of Misconduct by the Nicaraguan Democratic Resistance." The report found "evidence of a limited number of incidents in which known drug traffickers tried to establish connections with Nicaraguan resistance groups." The report stated that "drug traffickers were attempting to exploit the desperate conditions" in which the Contras found themselves, especially during the period when the Contras were not receiving any authorized funding from the United States government and were hard pressed for financial support. The report concluded that while individual members of the Contra movement might have been involved, there was no evidence that the drug trafficking had been authorized by resistance leaders. A later report by the State Department in July 1986 again noted that "the available evidence points to involvement with drug traffickers by a limited number of persons having various kinds of affiliations with, or political sympathies for, the resistance groups."

During the Subcommittee's investigation, the DEA also attempted to gather information relevant to trafficking by the Contras or Contra sympathizers. This included a review of files and interviews with a number of DEA informants. In September 1986, the DEA sent a cable to all offices notifying them of "critical issues." The cable noted:

The debate over aid to the Contras is still being fought in Congress. Those supporting the Contras charge that the Sandinista government not only is exporting communism to the rest of Central America but that it also sends cocaine to the United States. Those elements against aid to the Contras charge among other things that the Contras support their activities through drug trafficking. Amid this debate, DEA receives an endless number of questions concerning what investigative or intelligence information this agency has concerning both groups. Headquarters must find a way to satisfy these questions and protect investigations.

In January 1987, the DEA produced a report entitled "Assessment of Connections Between Drug Traffickers and Anti-Sandinistas and Contras." The report concluded:

We judge that there is little substance to these allegations. There is no evidence that any of [the anti-Sandinista] groups play a role in any drug trafficking operations. If there is a connection it would have to be characterized as a situation in which these groups

unwittingly received funds from politically sympathetic drug traffickers or individual Contra members participating in the traffic for their own personal gain.

The DEA review also did not confirm allegations made in the San Francisco Examiner in March 1986 that defendants in the San Francisco "Frogman case"<sup>(4)</sup> had delivered large sums of money to the Contras from their cocaine profits. However, the DEA in San Francisco did note the following facts: a defendant arrested in a DEA investigation, Renato Pena, had listed his profession as a volunteer worker for the FDN and had asked a confidential informant to meet him at the FDN office on one occasion; a defendant in the Frogman case had made 51 telephone calls to the FDN office in San Francisco; and Norwin Meneses had offered to provide the DEA with information about Nicaraguans involved in cocaine trafficking in Los Angeles for the benefit of the Sandinista government.

The DEA reported that certain drug traffickers in Costa Rica might be associated with the Contra movement. This list included: someone arrested with one kilogram of cocaine who was later reported to be a member of the Southern Front Contra group Democratic Revolutionary Alliance (ARDE); pilot Gerardo Duran, arrested by Costa Rican authorities and associated with the ARDE; Jorge Morales, prosecuted in Miami on drug charges and alleged to be good friends and former business partners with ARDE leader Eden Pastora; and a suspect connected with the seizure in Miami of 414 kilograms of cocaine in a container of frozen food from Costa Rica who was known for his association with the ARDE.

The report also stated that the DEA had received allegations that Eden Pastora and the ARDE were involved in drug trafficking and that the ranches of two United States citizens in Costa Rica were being used to smuggle weapons to the Contras and cocaine to the United States. Finally, an informant had told the DEA office in Guatemala that Hanger Four at the Ilopango airfield in El Salvador, reportedly used to supply the Contras, was also being used by traffickers to store cocaine en route to the United States. The DEA reported that this investigation had been turned over to the U.S. Customs Service and to the IRS.

The DEA report concluded that there was insufficient information to confirm allegations that Contra groups were involved in drug trafficking. The report stated that if the groups had received drug proceeds, "it probably would reflect a personal decision by the trafficker or an individual Contra member, not a systematic organizational effort." It also found that the drug traffickers associated with Eden Pastora and the ARDE were:

not dedicated anti-Sandinistas political supporters. They have been described as "contrabandistas" who are involved in a range of illegal activity in Central America, including drug trafficking. While they may be associated with ARDE and sympathize with its cause, ARDE does not appear to direct their activities. Pastora's involvement with drug traffickers does not imply that the ARDE or other anti-Sandinistas groups condone his actions.

In January 1987, the CIA presented a report to the State Department that had been coordinated with the

DEA. This report included information about an individual named Jose Orlando Bolanos who, in January 1982, met with DEA and FBI undercover agents, claimed to be in command of an anti-Communist movement in Nicaragua called the "Internal Front," and laid out a plan to import cocaine into the United States. According to the report, Bolanos requested funds for expenses in connection with his plan to import cocaine, but later refused to take the money and the plan was not implemented. The report also stated that, in December 1986, the U.S. Embassy in Guatemala had received unconfirmed reports from a single, untested source, that the political director for a Contra faction and a conduit for Nicaraguan Humanitarian Assistance funding were smuggling cocaine into the United States. The report stated that these allegations had not been substantiated.

In August 1987, the Chief of the CIA's Central American Task Force testified before the Iran-Contra Committee of Congress that drug smuggling by the Southern Front Contras was more significant than previously reported. He stated: "With respect to [drug trafficking by] the Resistance Forces . . . it is not a couple of people. It is a lot of people." He also noted in a deposition taken by Committee staff:

We knew that everybody around Pastora was involved in cocaine . . . His staff and friends (redacted) they were drug smugglers or involved in drug smuggling.

In November 1987, the "Report of the Congressional Committees Investigating the Iran-Contra Affair" (Joint Report) was issued jointly by the House Select Committee to Investigate Covert Arms Transactions with Iran and the Senate Select Committee on Secret Military Assistance to Iran and the Nicaraguan Opposition. An appendix to this report contains a memorandum written by a House investigator, dated July 23, 1987, entitled "Allegations Regarding Contra Involvement with Drug Smuggling." The memorandum concluded that the investigation had "not developed corroboration of allegations [of] U.S. government-condoned drug trafficking by Contra leaders or Contra organizations or that Contra leaders or organizations had in fact taken part in such activity." The memorandum noted that hundreds of witnesses had been questioned and records examined. The Joint Report also contained an appendix entitled "Organization and Conduct of the Committees' Investigation," which noted that it had tracked the source of the Contras' funds and failed to find any indication of drug trafficking or influxes of cash attributed to drugs. The report noted that Contra funding was largely accounted for by contributions from countries other than the United States.

The Office of Independent Counsel for Iran/Contra Matters (OIC), headed by Lawrence E. Walsh, did not formally investigate allegations that the Contras had been involved in drug trafficking. Former Special Counsel to the OIC William Hassler told the OIG that the drug aspect of the Iran-Contra investigation was "minute" -- so minute that the OIC did not have a representative of the DEA assigned to the case. Hassler said that the OIC did an exhaustive investigation to track the funding of the Contras and that, with the exception of several unexplained withdrawals of funds, the money was accounted for. Hassler stated that he did not see any evidence to suggest laundering of drug money by the Contras.

## **F. Scope of the OIG Investigation**

The San Jose Mercury News articles spurred renewed interest in the subject of drug trafficking in support of the Contras, particularly the allegation that certain Contra supporters described in the articles trafficked drugs with the knowledge and support of the CIA and were responsible for the crack explosion in southern California and throughout the United States. We received numerous requests for a review of the allegations in the articles, including requests from individual Senators and members of Congress, the City Council of Pasadena, California, and several private individuals.

Rather than cover the same areas that had been investigated by Congress and other reviews at an earlier time -- closer in time to the actual events when witness recollections were fresher and documentary evidence was more readily available -- we decided that the primary focus of our investigation and report should be on the new allegations raised by the Mercury News stories. We have therefore concentrated on the allegations advanced by the articles that Danilo Blandon, Ronald Lister, Ricky Ross, and others in southern California and Norwin Meneses, Julio Zavala, and Carlos Cabezas in northern California were trafficking in drugs with the tolerance or protection of federal government agencies because of their ties to the Contras.

Our investigation did not focus on what CIA employees knew or did with regard to these and other Contra drug trafficking activities. The CIA Inspector General has jurisdiction over that subject and will report his findings in his own, separate report.

Our investigation also did not focus on the cases that were already reviewed extensively by the Senate Foreign Relations Committee's subcommittee. We had to make decisions about what the OIG could fruitfully investigate more than ten years after events had taken place, in an area where a great deal of investigation has already been done. We were told by subcommittee staff that even ten years ago people's accounts were contradictory and their memories were fragmentary, and we believed that it would be difficult, and not an efficient use of our investigative resources, to try to replot the ground already covered by the Subcommittee. As a result, we decided not to reinvestigate the same topics covered by the Subcommittee but instead primarily focused on the new issues raised by the San Jose Mercury News articles.

In our report, we describe the information we found in our interviews and review of Department of Justice files, as well as our conclusions concerning the validity of the allegations raised. In the course of our investigation, however, we inevitably encountered considerable evidence not only related to how the Department of Justice pursued drug trafficking activities by certain individuals, but also evidence related to the nature of these trafficking activities and whether the traffickers were, in fact, connected to the Contras or the CIA. In order to supplement existing accounts of the connections, if any, among the Contras, the CIA, and drug trafficking, we have also set out the evidence we found in DOJ files and in our interviews of DOJ employees and others concerning these connections. But, because our investigation into areas not related to DOJ were far from exhaustive, our conclusions in this regard are more tentative than our conclusions about DOJ actions in these cases.

The specific allegations raised by the Mercury News articles and elsewhere that are the primary focus of



our report can be summarized as follows:

1. The articles suggested that the federal government protected Danilo Bandon from investigation and prosecution for drug trafficking so that he could provide drug money to the Contras. According to this claim, Bandon may have been tipped off by the CIA or other government entities to the execution of a search warrant on his residence and business in October 1986, and a federal investigation of Bandon in 1987 was closed because of Bandon's connections to the Contras or the CIA. In addition, the suggestion was made that Bandon received inappropriately lenient treatment after he was arrested for drug trafficking in 1992, and he improperly received a "green card" at this time.
2. Similarly, the federal government allegedly protected Norwin Meneses from investigation or prosecution for his drug trafficking so that he could provide funds to the Contras. The Mercury News articles suggested that Meneses, a known drug trafficker, was able to enter and live in the United States with impunity because of his Contra connections. The series noted that when the federal government finally indicted Meneses in 1989, the indictment was sealed and Meneses was never arrested.
3. The Mercury News articles indicated that Bandon's and Meneses' motivation for drug trafficking was to support the Contras and that they gave millions of dollars of drug profits to the Contra movement. One of the sources on which the Mercury News relied for this claim was Enrique Miranda, who accused Meneses of selling cocaine for the Contras and using the Salvadoran Air Force to transport cocaine shipments. We do not make definitive findings on Bandon's and Meneses' relationship with the Contras or how much money they provided to the Contras, but we report information we came across concerning these claims.
4. The articles suggested that Bandon's drug trafficking was connected to the CIA. The articles stated that during testimony before a federal grand jury in San Francisco in 1994, Bandon "implied that his cocaine sales were, for a time, CIA-approved." In addition, the series claimed that federal prosecutors blocked certain testimony in the 1990 trial of Los Angeles County Sheriff's deputies accused of corruption and in a trial of Ricky Ross in 1996 because the testimony may have revealed the CIA's ties to Bandon's drug money raised for the Contras.
5. The articles similarly suggested that a drug trafficking associate of Bandon, Ronald Lister, was protected from investigation and prosecution because of his alleged ties to the Contras and the CIA and that when he was prosecuted in 1990 he received inappropriately lenient treatment. According to these allegations, Lister funneled drug money and provided arms to the Contras and had connections to the CIA through another associate, David Scott Weekly.

6. The articles alleged that Ross and Blandon were the prime contributors to the rise of crack in Los Angeles and across the nation. Allegedly, cocaine was not available in South Central Los Angeles until they made it widely available and the drug network of Ross and Blandon was the catalyst for the crack epidemic that erupted in the 1980s across the entire nation, not just in Los Angeles.

7. The articles suggested that Ross was targeted for prosecution after he testified against corrupt Los Angeles County Sheriff's deputies in 1991. Moreover, the articles also raised the issue of disparity of treatment between Ross and Blandon, who received significantly different sentences after their convictions.

8. The articles reported that in 1984 federal prosecutors in San Francisco returned to Julio Zavala, a drug trafficker who had ties to the Contras, \$36,800 that had been seized from him. The articles attributed the return of the money to the government's tolerance of drug trafficking activities by the Contras. In addition, we reviewed allegations that Zavala and fellow drug trafficker Carlos Cabezas dealt cocaine for the Contras in San Francisco in the early 1980s.

9. The articles resurrected certain allegations that had been made by Celerino Castillo, a former DEA agent who had been stationed in Central America during the 1980s, regarding federal government and CIA support or indifference to Contra drug trafficking. Castillo alleged, among other things, that the federal government and the DEA turned "a blind eye" to his reporting that drug trafficking was occurring at the Ilopango air base in El Salvador.

10. We also reviewed claims that the CIA passed information to the DEA about Contra drug trafficking that the DEA did not pursue. We attempted to determine whether such information was in fact furnished to the DEA and, if so, whether it was appropriately handled. We also inquired into the DEA's handling of claims of Contra drug trafficking that were received by sources other than from the CIA. For example, we reviewed allegations that DOJ did not properly prosecute John Hull, who lived in Costa Rica and was allegedly linked to the Contras and the CIA.

## **G. OIG Investigative Procedures**

To investigate these matters, we first directed all DOJ components to identify all files and documents relating to these allegations or to drug trafficking on behalf of the Contras. We also requested all files relating to the specific individuals mentioned in the Mercury News articles. In all, we obtained and reviewed over 40,000 pages of documents from, among others, the FBI, the DEA, the INS, the Criminal Division of DOJ, various U.S. Attorneys' offices throughout the country, and the CIA.

We also met periodically with representatives from the CIA Office of Inspector General (CIA OIG)

concerning its review. We conducted some joint interviews with the CIA OIG of persons who were relevant to both the CIA OIG and our investigations, and we shared relevant documents with the CIA OIG. The CIA OIG also agreed to review the CIA documents it collected during its review and provide to us any that related to DOJ activities or employees or to the specific individuals who were the subject of our review. Although we cannot be certain that the CIA OIG uncovered all CIA documents responsive to our requests, we did receive a significant number of such documents from the CIA OIG.

We want to make clear that the CIA OIG, a separate organization from ours, is conducting its own investigation into what CIA employees knew and did concerning the allegations of alleged drug trafficking by Contras. The CIA OIG will issue its own report with its own conclusions that will cover different ground from our report, which focuses on DOJ actions. While we coordinated some aspects of our two reviews, they are independent investigations that may reach different conclusions. We leave the CIA OIG to report its findings about CIA conduct regarding alleged drug trafficking by Contras.

During our investigation, we conducted over 200 interviews of relevant witnesses in the United States and in Central America. We attempted to interview former and current DOJ personnel who had knowledge concerning these allegations, as well as the principal persons involved in the allegations. Most of the people we contacted agreed to be interviewed, including Danilo Blandon, Norwin Meneses, Ronald Lister, Ricky Ross, Enrique Miranda-Jaime, Julio Zavala, and Carlos Cabezas. However, a small number of people declined to talk with us, including former DEA Costa Rica Country Attache Robert Nieves; CIA employees Alan Fiers and Joseph Fernandez; Oliver North; and several persons in Los Angeles who were partners or competitors of Ricky Ross. We also attempted to interview Celerino Castillo but were unable to because of interview conditions demanded by Castillo that were unacceptable to the OIG. We attempted to gain Castillo's cooperation through Representative Maxine Waters, but she also was unsuccessful in persuading him to speak with us. Although the Inspector General Act permits the issuance of subpoenas duces tecum for documents and records from people who are not employees of the federal government, OIGs lack the power to compel the testimony of non-government witnesses. This creates a significant gap in the evidence-gathering abilities of OIGs, which we have advocated be remedied by legislation.

Our investigation was made more difficult because of the number of years that have passed between the events and our review. Many of the witnesses we interviewed had only a dim recollection of the events in question or could not remember specific details at all, and some witnesses are now deceased. Certain files were also difficult to locate, are incomplete, or are missing. Because of the passage of time, we have no assurance that we uncovered every piece of information relevant to these issues. However, by and large, DOJ components were able to locate the documents and information that we requested, and they cooperated fully with our review.

The OIG devoted considerable resources to this exhaustive review. Five attorneys, five investigators, and various support staff worked either full-time or part-time on this matter.

## **H. Structure of the OIG Report**

Our report is divided into twelve chapters. Following this introduction, the second chapter contains an analysis of the allegations concerning Danilo Blandon. The third chapter examines the allegations regarding Norwin Meneses. The fourth chapter is an analysis of what we uncovered during our review about the relationship of Blandon and Meneses to the Contras and to the CIA. The fifth chapter reviews the allegations made about Ronald Lister and his alleged relationship to the Contras and to the CIA. The sixth chapter discusses the allegations regarding Ricky Ross. Chapter seven discusses the allegations made by convicted drug trafficker Enrique Miranda-Jaime. Chapter eight discusses Julio Zavala, a convicted drug trafficker in San Francisco with ties to the Contras. Chapter nine describes the claims by Carlos Cabezas that he and Zavala dealt drugs to benefit the Contras. The tenth chapter examines the claims made by former DEA agent Celerino Castillo. The eleventh chapter discusses the exchange of information between the DEA and the CIA with regard to investigations of drug trafficking and reviews a number of specific cases in which DOJ allegedly failed to investigate or prosecute individuals because of their ties to the Contras, including the case of John Hull. The twelfth chapter provides a short conclusion to the report.

Because many of the separate chapters involve an overlapping cast of characters, and in many cases the same events, some repetition among the various chapters was inevitable. In some cases we have cross-referenced the chapters rather than repeat the same information.

Finally, we believe that a basic outline describing the various groups that supported the Contras and the timing of United States financing of these groups is a helpful aid to understanding the allegations at issue in this report. We therefore briefly describe in Appendix A to this report the basic structure of the Contra groups that were relevant to our review and the timing of United States funding of these groups. In Appendix B and C we briefly describe how crack is made and the history of cocaine. Appendix D contains additional details about Enrique Miranda's entry into the United States. Timelines of approximate dates for relevant events concerning several of the most important persons in this review -- Blandon, Meneses, Lister, Zavala, Cabezas, Miranda, and Castillo -- are contained in Appendix E. Appendix F contains a glossary of significant persons and terms used in the report.

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4. The case was so named because it involved the arrest of divers as they attempted to retrieve 430 pounds of cocaine from a Colombian freighter berthed in San Francisco.

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## Chapter II: Oscar Danilo Blandon

As noted in the previous chapter, the San Jose Mercury News articles reported that Oscar Danilo Blandon was a cocaine trafficker in Los Angeles who provided the profits of his sales to the Contra revolution. According to the articles, Blandon, along with Norwin Meneses, turned "Rick Ross into L. A.'s first king of crack." The articles noted that in 1986 the Los Angeles Sheriff's Department (LASD) raided more than a dozen locations connected to Blandon's drug operation but found virtually no drugs at any of the locations. The articles reported speculation that the CIA compromised these LASD raids, perhaps because of Blandon's ties to the Contras. The articles reported further that while Blandon was eventually prosecuted in 1992 by federal authorities and "admitted to crimes that have sent others away for life," he was released from prison after 28 months in jail, and was paid by the DEA for his cooperation. Moreover, Blandon received permanent legal resident status in the United States.

In later chapters of this report, we describe the evidence of Blandon's ties to the Contras and the timing and extent of his sales of cocaine to Ross. This chapter examines the federal investigations of Blandon, in light of the claims in Mercury News articles concerning the lenient treatment Blandon allegedly received from the federal authorities. We describe in detail what DOJ officials knew and did in their investigations of Blandon and focus particular attention on the allegation that Blandon may have been protected because of his relationship with the Contras. Although we found troubling issues in the investigation and prosecution of Blandon, such as a lack of coordination among federal law enforcement offices and the improper granting of permanent resident status to Blandon by the INS, we did not find that any of these failures were the result of interference or pressure from the CIA or any other federal entity.

### A. Background of Blandon

In his interview with us, Blandon described his background in Nicaragua and history of drug dealing in the United States. Blandon was born on July 29, 1951, in Managua, Nicaragua. His family members were well-known in Nicaragua and were substantial landowners. Blandon attended college in Canada and in Mexico, obtaining a degree in business administration. He returned to Nicaragua in 1974 to work in his father's real estate business. In 1978, he obtained a masters degree in business in Colombia, then returned to Nicaragua, where he worked for the Nicaraguan government as a director of retail and wholesale markets. In June 1979, after the fall of the Somoza regime, Blandon fled Nicaragua with his wife and daughter, traveling to Miami on a business visa. He applied for political asylum in the United States, which was initially denied but later granted.<sup>(5)</sup>

Blandon lived in Miami for a month, but then moved to Los Angeles, where he sold used cars for several years.

Blandon told us that in 1980 or 1981 he became involved with the Contra movement in Los Angeles. He said he opposed the Nicaraguan Sandinista rulers because they were communists. In Los Angeles, he

began attending informal meetings involving approximately twenty opponents of the Sandinistas. In approximately 1980 or 1981, Colonel Enrique Bermudez, a leader of the Contra group called the "Fuerza Democratica Nicaragua" or "FDN," visited Los Angeles, and the informal group then affiliated itself with the FDN.

Blandon said that in 1982, he met Norwin Meneses when a friend asked him to pick up Meneses at the airport in Los Angeles. Meneses was living in San Francisco at the time. Blandon did not know Meneses, although he heard about Meneses' reputation as a drug trafficker and had also heard that Meneses was called the "Padrino," or "Godfather," in Nicaragua. During the course of a conversation they had when they initially met, Meneses told Blandon that he would give Blandon cocaine and teach Blandon how to sell it, and they would send the profits to the Contra revolution. Blandon said he agreed to this because he had "nothing to lose" and would do anything "to get back" to Nicaragua.

Blandon tried to sell two kilograms of cocaine "fronted" by Meneses, but Blandon had difficulty finding buyers and made little profit from the sales, so Meneses identified customers for Blandon to contact. Blandon also began collecting money that was the proceeds of drug sales for Meneses in Los Angeles.

Around this time, the FDN in Los Angeles began organizing rallies and parties to raise money for the Contras. Blandon said he used some of the money he collected from the drug sales for expenses related to the rallies, such as food and t-shirts. Blandon estimated that he contributed the equivalent of between \$5,000 and \$10,000 to the Contra cause in this way.

According to Blandon, in 1982 he flew with Meneses to Central America to meet with drug dealers and purchase drugs. While in Honduras, they also met with Enrique Bermudez, the leader of the FDN, and discussed the FDN's financial problems. Bermudez said the Contras in Honduras had little money and needed funds for supplies such as medicine. Bermudez said to Blandon and Meneses during the conversation that "the end justifies the means." Blandon told us, however, that he did not believe that Bermudez knew that Blandon and Meneses were selling drugs to support the Contras or that this statement referred to any drug sales. Blandon said that he began donating drug money to the Los Angeles group supporting the Contras, to be used to purchase supplies for the Contras, such as trucks or medicine. Blandon estimated that he gave about \$40,000 all told from drug proceeds to the Contras.<sup>(6)</sup>

Blandon said that later in 1983, Bermudez addressed Contra supporters in the United States. He told the supporters that the Contras no longer needed their money because "the train is running," which Blandon interpreted to mean that the CIA was funding the Contras in Central America. Blandon continued selling drugs in Los Angeles, but for his own profit rather than to supply money for the Contras.

According to Blandon, in 1983 he broke with Meneses because he was making little profit selling the drugs that Meneses fronted and because he owed Meneses \$100,000. Blandon told us that he began getting and selling cocaine on his own. Blandon, by his own admission, became a significant drug dealer, receiving cocaine from Colombians, Mexicans and Nicaraguans, and selling large quantities to Rick Ross as well as others. Blandon claimed to us that he did not begin selling to Ross until 1985, long

after he had stopped selling drugs to support the Contras. In a later chapter discussing Ross, we describe the evidence as to the timing of when Blandon began selling cocaine that Ross supplied to customers in South Central Los Angeles.

## **B. DEA Investigation of Blandon**

The first information concerning Blandon that we found in DEA files is a March 1983 report of a debriefing of a confidential source by the Los Angeles DEA. This source identified two organizations allegedly smuggling large amounts of cocaine into California. The first organization, allegedly headed by Robert Arana, smuggled cocaine from Colombia to Miami, and then transported the drugs to Los Angeles and distributed them to "Hollywood celebrities." The source identified four members of this organization, one of whom was Blandon. The second organization, headed by "Edwin Ivan Meneses," smuggled cocaine into the San Francisco area and distributed large quantities there.

Another DEA confidential source provided more information concerning Blandon in January 1985. According to the source, in early 1983, Meneses' Colombian source of supply had stopped providing Meneses with drugs and Meneses had begun getting cocaine from Blandon's source of supply. The source also said that Blandon owed Meneses a \$200,000 debt and because Blandon did not have the money to pay it, he agreed to provide Meneses with cocaine. The source reported that in 1984, a drug trafficker furnished 18 kilograms of cocaine to Blandon, who in turn gave 8 kilograms to Meneses.

In February 1986, a third confidential source told the San Francisco DEA that in December 1982, Blandon had traveled to Miami for a conference in support of the Nicaraguan Contras and, while there, had visited two Nicaraguans who the source believed were involved in cocaine trafficking. During this visit, Blandon had received a telephone call from Meneses, although the source did not know the subject of the call. The source provided further details concerning Meneses' cocaine trafficking, but nothing further about Blandon.

This DEA source information apparently was treated as background intelligence, and the DEA did not open a case against Blandon until August 1986, when a confidential informant came into the DEA's Riverside, California, office and provided information to DEA Special Agent (SA) Thomas Schrettner. The informant described a loose confederation between two separate organizations distributing cocaine in California: the Blandon organization, located in southern California, and the Meneses organization, located in San Francisco. The informant did not have many details on Meneses, but provided extensive information about Blandon's operations. The informant reported that the principal supplier of cocaine to Blandon's group was Aparicio Moreno. According to the informant, Moreno also supplied Meneses, and Blandon gave drugs to Meneses as well. Blandon purchased high quality cocaine from suppliers other than Moreno if their prices were lower. The informant said that Blandon's organization was centered in San Bernardino County and operated from a trailer located at an auto dealership owned by Blandon, called Guerra Auto Sales, and from a restaurant owned by Blandon, called Nicamex Taco. The informant identified several other residences and businesses owned by Blandon where money and cocaine were stored. The informant also reported that Blandon, his wife Chepita, Ronald Lister, Moreno,

Moreno's wife Aurora Moreno, Carlos Rocha, Ivan Torres, and others transported millions of dollars from Los Angeles to a townhouse in Miami that had been purchased for Blandon by Orlando Murillo. Murillo worked for the Government Security Bank in Coral Gables, Florida, and allegedly acted as the money launderer for the Blandon organization.

DEA agent Schrettner told us that this informant had no documents or corroborating evidence other than what was reported about the historical operation of the Blandon organization, and the informant was unable to provide more current information or infiltrate the organization. The informant never provided information to the DEA again.

As a result of this intelligence, however, on September 1, 1986, Schrettner formally opened a DEA case targeting "Blandon, his associates and source of supply." The DEA case initiation report discussed the informant's account and proposed using surveillance and other investigative tools to develop evidence to prosecute Blandon and other organization members.

### **C. FBI Investigation of Blandon**

At approximately the same time that Schrettner opened the DEA case against the Blandon organization, FBI Special Agent Douglas Aukland of the FBI's Riverside, California office independently began a case against Blandon. On July 11, 1986, a confidential informant with information about the Blandon organization (LA CI-1) came, unsolicited, to FBI's Riverside office and told Aukland about Blandon's operations.

According to Aukland's report of LA CI-1's information, Meneses imported cocaine from Colombia through Nicaragua, Honduras, and Costa Rica, and was one of the largest distributors of cocaine on the West Coast. A pilot nicknamed "Oklahoma Dick," who possibly lived in the Tulsa area, regularly flew to South America to obtain this cocaine. The informant said the cocaine was then supplied to "Aparicio," Meneses, and Blandon. Blandon was said to be Meneses' largest competitor, although the two had previously been partners and still operated together when necessary. According to LA CI-1, among the members of Blandon's organization were his wife (Chepita), Orlando Murillo (who routinely laundered cocaine funds for Blandon), and Ronald Lister, a former Laguna Beach, California police officer who, in September 1985, allegedly drove with Blandon to deliver 100 kilos of cocaine to "major suppliers of LA 'rock houses'" in exchange for 2.6 million dollars.

According to Aukland's report, LA CI-1 reported further that Blandon and Meneses were founding members of the Nicaraguan Democratic Force (FDN), a wing of the Contra movement headed by "Calero," and that Blandon and Meneses used their drug profits to help fund the FDN. According to Aukland's report, LA CI-1 said that in January 1985, Eden Pastora, another Contra leader, had met with Blandon in Miami in an effort to "seek[] cocaine funds from Blandon to fund Contra operations [but] no deals were struck during that meeting."

When we interviewed Aukland about this case, he reported that he normally worked white collar crime



matters and that the Blandon case was his first drug investigation. Aukland thought LA CI-1 supplied valuable information and persuaded his supervisors in the Riverside FBI resident office and in the Los Angeles Field Office to let him work the case. Aukland said he did not get much help on the case from his supervisors or other agents, who were already spread thin handling other matters.

Aukland said to us that he thought LA CI-1 had come to the FBI because he had reached a "low point" in his life and also may have wanted to get back at people in the Blandon organization. LA CI-1 seemed "apolitical" to Aukland and did not appear to be a Contra sympathizer. Aukland told the OIG that although LA CI-1 said he did not know how much Blandon had contributed to the FDN, he thought that Blandon had originally started dealing drugs so that he could support the Contras. According to Aukland, the FBI paid LA CI-1 about \$10,000 in total for his cooperation.

Through the FBI, we also interviewed LA CI-1. He appeared to have extensive and direct knowledge of the Blandon and Meneses drug organizations during the early 1980s. He related how Blandon had come, "broke," to Los Angeles in 1982, had started to sell drugs for Meneses in small quantities, and had ended up a big dealer, distributing large quantities of cocaine. LA CI-1 told us that Blandon had never claimed to him to be selling drugs in order to support the Contras, and, contrary to Aukland's representations, LA CI-1 did not think that was Blandon's motivation. Blandon also never told LA CI-1 that he had given any money to the Contras. LA CI-1 opined that Meneses and Blandon may have been "moral supporters" of the Contras but had no direct role in founding the FDN. According to LA CI-1, Meneses and Blandon were concerned only about when the next cocaine shipment would arrive.

Regarding the statement attributed to him in Aukland's report concerning Eden Pastora, LA CI-1 said that he had meant that Pastora had been seeking funds from Blandon that LA CI-1 knew were cocaine funds, but LA CI-1 did not know if Pastora knew that the source of the funds was cocaine trafficking. LA CI-1 said he did not know anyone who received cocaine from the Contras or sold cocaine to make money for the Contras.

#### **D. DEA and FBI Cooperation in the Blandon Investigation**

The FBI and DEA Riverside offices were located in the same building, and in September 1986 Aukland and Schrettner learned that they both had information about the Blandon organization. According to their investigative reports, on September 3, 1986, they met, along with their supervisors, to discuss their cases against the Blandon organization. The DEA agents said at the meeting that the DEA in Riverside did not have the manpower to work the case but could assist the FBI if the FBI took the lead role in the investigation. Schrettner told us that at this time, he and the DEA in southern California were concentrating on numerous heroin cases and he could not devote his full time to the Blandon case. Aukland confirmed to us that the FBI was the lead agency in the Blandon case and that the DEA was only able to provide part-time help on the case.

In September 1986, Aukland wrote in an investigative report that his recommendation was to obtain an "off-site" location, not in the FBI's Riverside office, to run the investigation on the Blandon

organization. He also wrote that he planned to conduct surveillances of Blandon's possible stash locations, use pen registers on the telephones at those sites, and attempt consensual monitoring.

Aukland contacted the San Francisco FBI and the U.S. Attorney's Office in September 1986 and learned that FBI Special Agent Don Hale (now deceased) was investigating Meneses, in coordination with San Francisco Assistant U.S. Attorney Eric Swenson. Although Hale was not familiar with Blandon, he reported to Aukland that Meneses "has been known as a cocaine distributor for many years by the FBI and DEA." The San Francisco DEA had previously worked several cases against Meneses but had not developed sufficient evidence to prosecute him.<sup>(7)</sup> According to Hale, the FBI had received authority from the San Francisco U.S. Attorney's Office to attempt to build a historical drug conspiracy case against Meneses, but the FBI did not have an open case against him. Hale said he had three informants willing to testify against Meneses, although they were unable to infiltrate his organization. The informants had "indicated that Meneses, a Nicaraguan, deals in cocaine with both the Sandinista [sic] and Contra political factions in Nicaragua. Meneses is described as being basically apolitical and only interested in money." Hale told Aukland that Meneses was living in Costa Rica but came back to the United States on occasion.

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5. INS records show that Blandon entered the United States on June 17, 1979 on a business visa and applied for asylum on February 15, 1980 in Los Angeles, California. On January 25, 1983, the Los Angeles INS office denied his request for asylum and later issued an Order to Show Cause why Blandon should not be deported. On June 27, 1983, Blandon filed a new application for asylum before an immigration judge, and on August 19, 1985, the judge granted Blandon's asylum application, finding that Blandon had a well-founded fear of prosecution if he were returned to Nicaragua. For a further description of Blandon's immigration status, see section L below.

6. Blandon also told us that during his trip to Honduras, he was carrying \$100,000 for Meneses, to be used to purchase drugs from a big dealer in Bolivia. But when they were leaving Honduras, the police caught them with the money and confiscated it. Blandon later saw someone connected to the FDN, who went to the police and said that the money was for the Contras. Blandon said that, in reality, the money was not for the Contras but was intended for use in purchasing drugs. The police eventually released the money to Blandon, who then flew to Guatemala and gave it back to Meneses. They never received a visa to enter Bolivia and never consummated the proposed drug deal there.

7. We describe these cases in the next chapter of the report, which discusses the Meneses investigations.

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## **E. Los Angeles Sheriff's Department Investigation of Blandon**

At the time the FBI and DEA were looking into the drug trafficking activities of Blandon's organization, the Los Angeles Sheriff's Department (LASD), in conjunction with other local law enforcement authorities, was independently pursuing its own inquiry. The LASD investigation culminated in searches in October 1986 of 13 residences and businesses occupied by Blandon and his associates. In 1996, responding to the allegations in the San Jose Mercury News about the LASD's case involving the search warrants, the LASD conducted a review of the case, interviewing numerous LASD deputy sheriffs and others involved in that investigation. Their findings were described in a detailed report (the "LASD Report").

According to the LASD Report, the LASD investigation of Blandon began in 1986 when Internal Revenue Service (IRS) investigators looking into a Colombian money laundering operation in Bell, California, provided information about that operation to a Bell Police Department officer, Jerry Guzzetta. On August 9, 1986, Guzzetta used this information to obtain search warrants that led to the seizure of a substantial amount of drugs and currency. The operation also produced an informant or informants who described three major Colombian drug trafficking organizations and a fourth dealer, Danilo Blandon, who was said to be a "peripheral" source of supply for the "black cocaine market" in Los Angeles, which was led by "Rick" and "Ollie" [Rick Ross and Ollie Newell]. Blandon was said to work with an ex-Laguna Beach Police Officer by the name of "Ronnie" [Ronald Lister], who was reported to have transported 100 kilos of cocaine to the "black market" in Los Angeles and millions of dollars to Miami for Blandon. Blandon's source of supply was alleged to be a Colombian dealer.

In early September 1986, Guzzetta provided this information to Deputy Sheriff Thomas Gordon of the LASD "Major Violators Team II," a unit of deputy sheriffs assigned to investigate major drug traffickers. (8) As a result of this information, a team of LASD deputies led by LASD Sergeant Ed Huffman began investigating the Blandon organization, primarily through surveillance and collecting informant information on Blandon and his associates.

In September 1986, Aukland and Schrettner learned that the LASD was also investigating the Blandon organization and had an informant providing specific information about drug trafficking by Blandon and Lister. Aukland and Schrettner met with LASD deputy sheriffs and shared the information from their informants with them. In mid-October 1986, Aukland, Schrettner, and another DEA agent assisted the LASD in conducting surveillances of Blandon's businesses, Guerra Auto Sales and Nicamex Taco restaurant. Aukland and Schrettner surveilled Blandon's house and businesses and shared their observations with Deputy Sheriff Gordon.

### **1. Los Angeles Sheriff's Department Affidavit in Support of the Search Warrants**

On October 23, 1986, LASD Deputy Sheriff Gordon applied for search warrants covering fourteen locations associated with the Blandon drug trafficking organization, including Guerra Auto Sales,

Nicamex Taco Restaurant, and several residences believed to be occupied by Blandon, Lister, Roberto Aguilar, Ivan Torres, and Aparicio Moreno. Gordon's affidavit purported to be based on information from four sources. According to the LASD Report, Gordon received the information from Guzzetta, LASD Deputy Sheriff Richard Wenig, Aukland, and Schrettner.

The affidavit stated that the first informant (Guzzetta's informant) had reported that the highest ranking member of the drug organization was Blandon, who had several businesses and residences that he used for the distribution and storage of cocaine. Ronald Lister, described as a close associate of Blandon, was said to operate a private investigation agency named Pyramid International Security Consultants Corporation, and to store and transport cocaine for Blandon. Roberto Aguilar was said to handle large cocaine transactions when Blandon was out of town.

The affidavit also stated that Gordon had learned through Deputy Sheriff Wenig that the DEA had conducted two investigations of Blandon and Lister over the past three years. The affidavit further reported that Wenig had placed Gordon in contact with an informant who said that Blandon was a Contra sympathizer and founder of the FDN and that "[t]he money and arms generated by this organization comes thru [sic] the sales of cocaine." This informant was said to have provided one hundred names of persons involved with the distribution of cocaine, all of whom were either Nicaraguan and/or sympathizers to the Contra movement.

On October 23, 1986, Los Angeles Municipal Court Judge Glennette Blackwell signed the search warrants based upon Gordon's affidavit.

When interviewed in 1996 by the LASD for its report, Deputy Sheriff Wenig said that he doubted he had provided any information to Gordon about the Blandon organization, and that he was "99.9 percent" positive that he had not provided an informant to Gordon. We interviewed Wenig also, and he similarly denied that he was the source of the information in the affidavit or that he had any informant who had provided this information. As to the information attributed to Wenig that the DEA had two previous investigations of Blandon and Lister, he said that he may have been asked by Gordon to run a computerized name check seeking federal information on Blandon. The DEA's NADDIS (Narcotics and Dangerous Drugs Information System) database contained information from several sources concerning Blandon, but, as we described above, the DEA had not conducted investigations of him before 1986.

Gordon's affidavit also summarized information about the Blandon organization that came from Schrettner's and Aukland's informants and described several surveillances of Blandon and his associates. It stated that on October 17, 1986, LASD Deputy Sheriff Eufrasio Cortez had entered Guerra Auto Sales posing as a customer and, on opening an office door, had seen "four male Latins." One of them had appeared startled and quickly threw a jacket over a "triple beam scale" sitting on the file cabinet. Cortez was escorted out of the office. When interviewed later in connection with the LASD Report, Cortez said that this incident never occurred, and that Gordon had simply fabricated this part of the affidavit to support probable cause for the warrant. Cortez said that Gordon, who had been his partner, commonly made things up.

## 2. Execution of the Search Warrants

On October 24, 1986, the LASD held a meeting to plan how teams of LASD deputy sheriffs, assisted by federal and state agents, would execute the warrants.<sup>(9)</sup> A document prepared by the LASD in connection with this meeting, entitled "Background & Operational Plan," noted that the investigation was a joint effort by the LASD, the Bell Police Department, the FBI, and the DEA. It related that the Blandon organization was believed to be moving hundreds of kilos of cocaine a month in the southern California area and laundering proceeds through a variety of business fronts. The document reported that money was then sent to Florida, where it allegedly went to purchase arms to aid the Contras.<sup>(10)</sup>

During the morning of October 27, 1986, teams of LASD deputies, with assistance from local and federal agents, including Aukland, Schrettner, and several other DEA agents, executed searches at 12 of the locations listed in the warrants and one additional location. A deputy sheriff on each team filed a "supplementary report" after the searches describing what occurred at each location and what evidence was seized. A "Master Narcotics Evidence Control Ledger" also noted the location from which each piece of evidence was seized and its final disposition.

According to these documents and statements from the deputy sheriffs, the only drugs seized during the searches were a folded paper with approximately one gram of cocaine, a folded ten dollar bill with approximately 1/12 gram of cocaine, and another folded paper with approximately .3 grams of cocaine, all found at Blandon's house. Blandon and his wife Chepita Blandon were arrested by the LASD for possession of a controlled substance. Several weapons, ammunition, \$163, and miscellaneous papers were also listed as having been seized from Blandon's house. According to the LASD supplementary report covering Blandon's residence, he spontaneously stated when he was being taken from the house, "the cocaine is mine, the cocaine is mine, it's mine." Blandon subsequently denied making any such statements.

### a. Search of Blandon's Residence

DEA agent Schrettner told us that he went to Blandon's house when the search warrant was served, but he is not listed on the LASD supplementary report as being present. Schrettner recalled that an ounce of cocaine was seized from Blandon's house, but he was not involved in the seizure and he did not remember who seized the drugs or where in the house they were found. The LASD Report lists DEA Special Agent Ron Piero as assisting in the search of Blandon's house, but Piero told us he had no recollection at all of this search.

Among the documents seized from Blandon's house were bank statements that appeared to be related to Contra financial activities. As we describe in more detail in Chapter IV below, Blandon told us that the documents were sent to him from his sister, Leysla Balladares, who lived in San Francisco. He said the documents were copies of bank accounts maintained by Contra leaders, and these records indicated that the Contra leaders were stealing from money donated to the Contras and that these records did not relate to him or his drug trafficking. He said his sister had sent him the documents because she thought he

would be interested in them.

## **b. Search of Ronald Lister's residences**

LASD deputy sheriffs searched Ronald Lister's house on Lagarto Drive, Mission Viejo, but no federal agents participated in this search. At Lister's house, the deputies seized video monitors, a box of training manuals, card files, check books, military training films, mail, financial information, and ammunition. When a neighbor told the deputies that Lister had moved to an address on Barlomento Road in Mission Viejo, the deputies went there, even though it was not a location listed in the search warrant. Lister was at the Barlomento residence, and he consented to a search of that house. Deputy Sheriff Robert Juarez included the following in his supplementary report covering this search:

I spoke with Mr. Lester [sic] who told me that he had dealings in South America & worked with the CIA and added that his friends in Washington weren't going to like what was going on. I told Mr Lester that we were not interested in his business in South America. Mr. Lester replied that he would call Mr. Weekly of the CIA and report me.

As we describe in further detail in the chapter of this report on Lister, the LASD found no drugs in the search of Lister's Barlomento Road residence, but they did seize various documents, including photographs, financial statements, and a 10-page handwritten document with names, phone numbers, a flowchart, and a description of various meetings. This document also contained the phrase: "In meantime I had regular meeting with DIA Sub contractor Scott Weekly. Scott had worked in El Salvador for us. Meeting concern my relationship w the Contra grp. in Cent. Am. At that time I asked him about scramblers syst. I might buy to sell." It added: "Said he could get one for me to sell if I had a customer. Want \$10,000-for it. As he had to share cost w someone in DIA." In the LASD "Master Narcotics Evidence Control Ledger," Deputy Juarez made a note that miscellaneous "CIA info" had been seized at Lister's Barlomento residence. When later interviewed in connection with the LASD Report, Juarez attributed this description to his own preoccupation with Lister's claimed CIA involvement, and stated that none of the documents had carried any insignia or stamp of the CIA.

When Lister was interviewed in 1996 in connection with the LASD Report, he said that during the search of his house, the deputies had found various weapons, pictures, and items that were tagged "not for sale in the United States" and were related to his legal weapons business. Lister claimed that the deputies were fascinated by the items and began to discuss their belief that Lister might be associated with the CIA. Lister admitted making the statement that he could make one call and "you'd all go away," but he claimed he was referring to a call to his attorney.

When we interviewed him, Lister also denied saying that he would call Mr. Weekly or anyone in the CIA. Lister said that he did talk about making a telephone call, but his intention was to call his attorney. Lister stated that he did not tell the deputy sheriffs that he worked for the CIA or that what he was doing was CIA approved. Lister said that when the deputies began finding his security equipment and paperwork, they asked him what he was involved in and whether he worked with the CIA. Lister said he

replied, "are you kidding?" and denied he was connected to the government.

In FBI files, however, we found a cable dated November 17, 1986, from Auckland to FBI Headquarters, which reported:

During the service of the 14 search warrants by the Los Angeles County Sheriff's Office . . . it was noted that subject Lister commented that his "CIA contact," Mr. Weekly, would not appreciate this intrusion. Lister has allegedly been selling arms to South American countries or insurgents. In addition, documents obtained during the search indicated that Lister has been in contact with a Scott Weekly, "DIA" (possible Defense Intelligence Agency).

This cable was apparently based on information that the LASD Deputy Sheriffs who searched Lister's residence gave to Auckland, who decided to ask the CIA and DEA about it. In his cable, Auckland asked FBI Headquarters to contact the CIA and the Defense Intelligence Agency to determine whether those agencies were involved in operations with the subjects of Auckland's investigation, including Blandon, Lister, Norwin Meneses, Orlando Murillo, and Aparicio Moreno.

FBI Headquarters forwarded a request to CIA Headquarters and the Defense Intelligence Agency asking them to advise the FBI "whether or not any of the captioned subjects are currently of operational interest to your agency." On December 18, 1987, the CIA responded that it had information that Norwin Meneses Cantarero was involved in drug activities in Costa Rica, and that he was called the kingpin of narcotics traffickers in Nicaragua. The CIA replied further that Orlando Murillo had been described as a former official with the Swiss bank in Managua. The CIA stated that it had no traces on anyone else mentioned. On December 30, 1986, the DIA responded to the FBI that none of the subjects listed "are of operational interest to DIA," and that "available records show that `Scott Weekly' is not employed by DIA nor has he received a clearance through DIA."

### **c. Search of Roberto Aguilar's residence**

Along with LASD deputies, DEA Special Agent Hector Berrellez (now retired) participated in the search of the residence of Roberto Aguilar. The supplementary report filed by the LASD covering this search stated that the deputies seized paperwork and photographs and listed the seized evidence as "Misc. paperwork & utility bill; personal letter address to Roberto Aguilar, misc. photographs." When we interviewed Berrellez, he said there was a safe at the house, which the occupants were told to open. Inside, Berrellez found a box containing photographs and ledgers typical of those that big drug dealers keep. Berrellez said the photographs were of men in military uniforms and military operations. He said he specifically remembered a photograph of a man in an aviator's flight suit standing before a war plane and holding an automatic weapon.

## **3. Issues Regarding the Search**

Various allegations have been raised concerning the October 1986 search warrant and the LASD investigation of Blandon and his associates. This section discusses the allegations relating to the federal role in the searches.

### **a. Allegation that federal authorities impeded the LASD investigation**

According to one allegation, federal agents sought to obstruct the LASD investigation by asking it not to execute the search warrants. The LASD Report describes the recollections of certain deputy sheriffs as hearing at some point, perhaps at the pre-search warrant briefing on October 24, 1986, that federal agents did not want the LASD to go forward with its case. A chronology prepared by LASD Sergeant Huffman shortly after the search warrant was executed also states "FBI Riverside asks Majors II [the LASD unit] to hold back investigation."

We have found no evidence of any such alleged obstruction. Aukland told us that, even though Deputy Sheriff Gordon had said the LASD had a good case against Blandon and his associates, Aukland and Schrettner preferred that no search warrant be executed while the FBI and DEA were in the process of developing their own cases. But once Gordon indicated that the LASD was going forward, Aukland and the DEA agreed to assist the LASD. Schrettner, too, recalls that he and Aukland did not want to impede the LASD execution of the search warrants. Indeed, Schrettner and Aukland thought that a seizure of drugs in these raids would strengthen the federal case.

Sergeant Huffman, who led the LASD investigation of Blandon, confirmed to us that the FBI and DEA cooperated with the LASD rather than impeded it. In addition, contemporaneous reports make clear that federal agents participated in surveillances with the LASD, shared information from their own surveillances, provided information used to support Gordon's search warrant application, and actually assisted in the execution of the search warrants.

The FBI and DEA would have liked the LASD to hold off the raids while they continued their own investigation -- a position that in retrospect was clearly justified by the fact that negligible drugs were seized and no cases were made based on the searches. But there is no evidence that the FBI or DEA tried to obstruct the LASD's investigation once the LASD decided to proceed.

### **b. Allegation that Blandon was tipped off about the warrants**

The allegation has also been made that the Blandon organization was tipped off about the search warrants in advance, perhaps by the CIA or other federal authorities, which would explain why the warrants recovered so little of value. Some of the local law enforcement authorities involved in the searches have speculated that federal agents may have "burned" the operation by informing someone in the Blandon organization about the warrant in advance. The San Jose Mercury News quotes others who suggest that the CIA may have compromised the raids. The evidence we found indicates that Blandon and others knew that the organization was under surveillance before the warrants were served and therefore changed operations. But we did not find that anyone intentionally tipped off Blandon's



organization about the impending raids.

Evidence that Blandon had some foreknowledge of imminent enforcement action comes from a variety of sources. In January 1987, as part of the later federal investigation, LA CI-1 met with Blandon, and Blandon himself told LA CI-1 that he had expected to be raided for two reasons: First, according to Blandon, shortly before October 27, Norwin Meneses had his property searched in Costa Rica. Second, about two weeks before the October 27 raids, Blandon began to notice that he was under surveillance.

When Blandon later cooperated with the federal authorities after his arrest in 1992, (as discussed in section K below), he said to Assistant U.S. Attorney L J O'Neale in San Diego that a friend had alerted Blandon that two FBI agents had been asking about him a few weeks prior to the execution of the search warrants in October 1986. As a result, Blandon grew suspicious and had stopped operating his drug business from his properties. Blandon provided similar information to DEA Special Agent Chuck Jones, who arrested Blandon in 1992.

When we interviewed Blandon, he reiterated that he had not been tipped off by any government officials, but had known that he was under investigation before the search warrants were executed. He said that about a month before the search, Carlos Rocha had reported to Blandon that the FBI had questioned Rocha and said that they were looking for Blandon. Rocha had advised Blandon to watch out. Blandon also said that he began noticing in the rear view mirror of his car that he was being followed. He therefore "cleaned everything" from his house about a month before the search. An incident two days before the warrants were executed heightened his suspicions even further. After Blandon's dog bit someone who had jumped over the fence to his house, someone later left a note with Blandon's maid stating that the dog had to get rabies shots. Blandon suspected the person whom the dog had bitten was a police officer.

When we interviewed Carlos Rocha, he gave us a similar account. He said that in July or August 1986, two FBI agents questioned him about Blandon. Rocha told the FBI agents that he had not seen anything suspicious, then reported to Blandon that the FBI was asking about him. Blandon was angry when Rocha said that he had told the FBI about Orlando Murillo, Blandon's rich uncle in Miami.<sup>(11)</sup>

Ronald Lister also has claimed that he noticed police surveillance just before the execution of the search warrants. When interviewed for the LASD Report, he said that a week before the search warrants were executed, his former neighbors had advised him that men with radios were watching his previous residence in Mission Viejo and taking notes. He then noticed people observing Guerra Auto Sales, and saw that he was being followed. Lister said he assumed it was federal agents watching him, and he claimed he told Blandon about this. Lister told us a similar version of events when we interviewed him.

Hector Berrellez, the DEA agent who participated in the search of Roberto Aguilar's house, told us that the occupants of the house knew that the search warrant was coming and said that they were expecting the police. Berrellez said he did not question the occupants about how they knew, although he said he has a vague recollection of some "talk" -- he was not sure from whom but thought it was from Schrettner

-- that the CIA may have monitored the LASD case through the DEA's intelligence center (EPIC). We found nothing to corroborate Berrellez's vague recollection, and Schrettner said he did not know of any CIA involvement in the Bandon case. Schrettner said that he heard from LASD personnel that a defense attorney may have made some claim about CIA involvement (see section E below), but he knew of no monitoring of the case by the CIA through the DEA intelligence center. According to the DEA, it is not possible for the CIA to monitor any case through EPIC. The DEA intelligence center reported that they received no query from the CIA about the case, and that the intelligence center would not share any such information with the CIA in any event.

In sum, the evidence suggests that before the search warrants were served, Bandon believed he was under investigation and changed operations, which is why no drugs were found. However, there is no evidence to support the allegation that any federal agency, including the CIA, deliberately tipped off Bandon or any of his associates.

### **c. Allegation that drugs were planted and money stolen during the search of Bandon's residence**

Bandon has alleged in interviews with the OIG and previously that the deputy sheriffs planted the small amount of drugs they said was recovered from his house. He denied ever stating that cocaine found in the house was his, and he also claimed that the LASD deputies stole a briefcase containing thousands of dollars from his house during the execution of the warrant.

The LASD Report analyzes the allegation of theft of funds and planting of drugs in great detail. It notes that several of the deputy sheriffs who assisted in the search warrant were later accused of stealing money from various drug dealers and planting evidence and were convicted in 1990 in the "Big Spender" case prosecuted by the U.S. Attorney's Office in Los Angeles. Deputy Sheriff John Hurtado specifically admitted to the LASD investigators that he took approximately \$50,000 in cash from a briefcase in a bedroom at Bandon's house. None of the sheriffs who were interviewed by the LASD, however, admitted that drugs were planted in Bandon's house. Deputy Sheriff Daniel Garner said that he found one "bindle" of cocaine left haphazardly in Bandon's house, which he thought Bandon may simply have forgotten about. At no point in our inquiry did we find any reason to believe that the DEA and FBI agents who assisted the execution of the searches, including Schrettner and Aukland, had any involvement in or knowledge of any misconduct in connection with the search of Bandon's house.

### **d. Allegation concerning CIA interference in the Los Angeles Sheriff's Department investigation**

#### **(1) Lister's statements**

As discussed above, Lister allegedly made statements about his CIA contact to the deputy sheriffs who searched his house. As we will discuss more fully in the chapter of this report on Lister, we find it likely that Lister did in fact make statements to the deputy sheriffs executing the warrant that he had ties to the CIA or worked for the CIA. Lister routinely made such statements to others. But, as we discuss in the chapter on Lister, we found no evidence that Lister actually did work for the CIA or the Defense

Intelligence Agency, as he claimed. Nor did we find evidence that the CIA interceded in any way on his behalf during the LASD's investigation or the FBI and DEA investigations concerning Lister or the Bandon organization.

## **(2) Statements by Bandon's attorney**

According to LASD Sergeant Huffman, after Bandon was arrested in connection with the search of his house on October 27, 1986, Bandon's attorney, Bradley Brunon, called Huffman and complained about the arrest of Bandon. Brunon allegedly said that he thought the "CIA winked at this sort of thing," referring to efforts by Bandon to raise funds for the Contras.

Brunon's comment is also contained in the chronology Huffman wrote shortly after the search, and Huffman told us he remembers Brunon making this statement. Huffman also apparently relayed Brunon's statement to FBI agent Aukland after the call. In a November 17, 1986, teletype to FBI Headquarters, Aukland wrote:

The LACSO [Los Angeles County Sheriff's Office] also said Danilo Bandon's attorney, Mr Brunon Bradley [sic]. . . telephonically contacted the LACSO on 10/27/86. Bradley said he thought the "CIA winked at this sort of thing." He indicated that now that the U.S. Congress has voted to fund the Nicaraguan Contra movement, the U.S. Government now appears to be turning against organizations like this. He did not specifically discuss drug trafficking or arms sales, but only referred generally to Bandon's and Lister's "activities." He at first represented Aparicio Moreno, but said he knew Lister and Bandon. Later the same day he indicated he was now representing Bandon.

According to the LASD report, Brunon told the LASD investigators in 1996 that he did not think he made the statement attributed to him by Huffman. He said he knew that Bandon was a sympathizer of Somoza but he had not heard that Bandon had any involvement with the CIA. Brunon said that even if he had heard this claim, he would not have made a comment to the LASD about it.

When we interviewed Brunon, he similarly stated that he had no information that Bandon was involved with the CIA, that Bandon had never reported that to Brunon, and that he never saw anything to make him believe that Bandon had a connection to the CIA. Brunon stated that he has had much contact with Sergeant Huffman over the years and did not want to deny making the statement Huffman attributed to him. But Brunon stated that he did not recall saying it. Brunon told us that charges were never filed against Bandon based on the 1986 search because there was simply not a case to be made, not because of any CIA involvement. Brunon said he never heard or believed a prosecution of Bandon was not pursued because of national security interests or Bandon's relationship with the Contras. Brunon also said he knew that Bandon was a Contra supporter, but Brunon had no direct knowledge that Bandon gave any money to the Contras.

Brunon also is quoted in the San Jose Mercury News articles as stating that Bandon was definitely

involved with drugs and "probably" involved with the CIA. Brunon told us that the quote in the paper was a simplification of a discussion he had with reporter Gary Webb in which Brunon had outlined the "possibility" of a link between Blandon and the CIA based on public information about the Contras, their funding problems, and "rumors" that Brunon had heard around 1991. These rumors came from deputy sheriffs, whose names he could not reveal because of the attorney-client privilege. He stated that the deputies had no specific information supporting these claims and that he viewed their stories as largely "apocryphal."

### **e. Allegation that evidence obtained during the searches was taken by federal authorities from the Los Angeles Sheriff's Department**

In the trial of the deputy sheriffs for corruption in 1990, one defense attorney, Harlan Braun, alleged that after the LASD search warrants were executed on October 27, 1986, federal authorities seized the evidence that had been found during the LASD searches. The LASD Report addressed this allegation extensively, discussing the handling and eventual disposition of the seized evidence. It concluded that, while the federal agents copied seized documents, there was no evidence that they removed any evidence from LASD custody. We have reached the same conclusion.

Aukland explained to us that, following the searches, he had heard that defense attorneys were complaining about the seizure of documents and that the LASD intended to return the documents to their owners. Aukland said that he, Schrettnner, and an IRS agent who was assigned to help in the federal investigation went to the LASD and made copies of documents seized during the search. Aukland said that he quickly copied about 10 inches of documents. This is confirmed by Aukland's investigative report, dated November 10, 1986, which we found in FBI files. The report states that on October 31, 1986 and November 3, 1986, numerous documents were copied by agents of the FBI, DEA, and IRS. A later investigative report stated that 1112 pages were copied.

LASD Sergeant Huffman confirmed that federal agents copied the documents that were seized during the execution of the warrants but did not remove any materials. Moreover, his chronology, written shortly after the searches, states "All seized documents copied by FBI, DEA & IRS Riverside." The LASD evidence log notes that, several months after the searches, many of the documents were released to attorneys representing Blandon and Lister, and other documents were either retained by the property custodian permanently, or destroyed after a period of time according to LASD guidelines.

In our investigation, we had some difficulty tracking down the documents that had been copied by Aukland. He said that the FBI should have the documents in its files, but in response to our repeated requests the FBI was unable to locate these documents, either in its southern California offices or in FBI Headquarters. Our interviews revealed that Aukland showed copies of these documents to Crossan Andersen, the Assistant U.S. Attorney who worked on the federal investigation of Blandon in 1986 and 1987 (described in section F below), and that these documents were later seen by other Assistant U.S. Attorneys in the Los Angeles U.S. Attorney's Office. However, the Los Angeles U.S. Attorney's Office was also unable to locate these documents in its files. We were told by DEA agents that they had seen

the documents in the U.S. Attorney's Office in 1990 and that they may have sent the documents to DEA Headquarters around that time, but the DEA could not locate these documents.

We did, however, receive from IRS files a box with copies of documents that had been seized during the search. Laura Hillhouse, an IRS agent who assisted Aukland in his investigation and took over the tax case when the FBI closed its investigation of Blandon in 1987 (see section H below), provided the documents to us from IRS files. She told us that she had received the documents from either Aukland or the previous IRS agent assigned to the case, and she had made copies of them which she provided to us. The box contains over 1000 pages of documents, including the documents seized from Blandon's house which were described in Aukland's memorandum to FBI Headquarters, documents from Guerra Auto Sales, from Lister's house, and from other places searched.

#### **f. Allegation concerning dismissal of drug possession charges against Blandon and his wife**

Although Blandon and his wife were arrested for the small amount of cocaine that the LASD allegedly found in their house, which Blandon claimed had been planted, those charges were dropped by the LASD. The San Jose Mercury News articles implied that Blandon may have been protected by the CIA and that the charges were dropped at its behest. We have found no evidence to support this charge.

As noted above, in the course of the October 27 searches, certain seized documents and certain statements by Lister and others suggested that the subjects of the LASD investigation might have had some connection to the Contras or even to the CIA. But there is no reason to believe that these vague and suspect indications played any part in the LASD's decision to drop the charges against Blandon for drug possession. And certainly there is no evidence that any federal authorities urged that the charges be dropped as part of an effort to protect Blandon or others. To the contrary, all the available evidence supports the account that Sergeant Huffman reported to us: that the LASD decided not to pursue minor state charges, and instead transferred the evidence that had been developed to the federal authorities, because those authorities had the investigative and prosecutorial resources to pursue a broader investigation of Blandon, and not because of any pressure by anyone on the LASD. Huffman added that the LASD is not the type of agency that would back off on any case because of pressure.

Huffman's handwritten chronology, written soon after the warrants were served, corroborates his account to us:

F. S/W Affidavit sealed

1. Riverside DEA & FBI will continue investigation . . .

G. No case filed to protect on going investigation & informants.

1. Very small amount of cocaine found @ 1 of 14 locations."

DEA Special Agent Schrettner and Aukland also reported that the LASD closed its case and agreed that the federal authorities should take it over. A January 14, 1987, meeting between LASD deputies, federal agents, and Assistant District Attorney Susan Bryant-Deason (which we describe below) further confirms this point.

In short, we cannot say for certain whether drugs were in fact planted in Blandon's house, as alleged by Blandon, or whether that allegation affected the LASD's willingness to drop the charges. Nevertheless, the charges appeared to have been dismissed and the affidavit sealed to allow the federal authorities to proceed with their investigation, not because of any pressure by federal authorities or the CIA.

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8. In 1990, Deputy Gordon was convicted of federal tax charges in connection with the "Big Spender" trial, which is described in Chapter IV of this report. This trial showed that various LASD deputy sheriffs, including Gordon, had stolen drugs and money from the drug traffickers they were investigating. Gordon refused requests to be interviewed in connection with the LASD Report, and our attempts to interview him were also unsuccessful.

9. According to a chronology prepared by LASD Sergeant Huffman just after the search warrants were executed, no DEA or FBI agents attended this meeting. FBI and DEA documents also indicate that no FBI or DEA agents were present. Aukland and Schrettner also told us they do not remember attending this planning meeting.

10. The LASD Report describes the contradictory recollections of various LASD deputies who attended the briefing as to what was said concerning the Contras and other matters. One deputy recalled Deputy Sheriff Gordon stating that the suspects were associated with the Contras and that profits from drug sales were used to purchase weapons for them. Another said that he heard at the briefing that the "feds" had not wanted the LASD to execute the warrant and that the LASD had received inquiries from the CIA about one of the suspects. Other deputies did not recall such statements being made, and the LASD found no other support for this claim.

11. We interviewed the two FBI agents who Rocha said had interrogated him. Both said they did not speak to Rocha during this time period, and we found nothing in FBI files relating to any contact with Rocha around this time.

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## **F. The Initiation of the Federal OCDETF Case**

After the unsuccessful search warrant in October 1986, the FBI and the DEA continued their investigation of Blandon under the direction of the Los Angeles U.S. Attorney's Office. Soon after the search warrants, Aukland contacted the U.S. Attorney's Office and proposed that the case be pursued as an Organized Crime Drug Enforcement Task Force (OCDETF) case, and in January 1987 the OCDETF committee within the U.S. Attorney's Office approved pursuing the matter. The investigation was then pursued as an OCDETF case, led by Aukland, until the summer of 1987 when the case was closed after efforts to infiltrate Blandon's organization proved unsuccessful and Blandon moved to Miami.

The following sections describe how the OCDETF case was initiated, investigated, and eventually closed. We first discuss the background to the adoption of the OCDETF case, then the investigative steps that were taken, including the unsuccessful attempts to have confidential informants penetrate and make purchases from the Blandon organization. We also explore the proposed use by DEA of Norwin Meneses as a source of information against the Blandon organization.

### **1. Background to the OCDETF case**

In a November 10, 1986, investigative report, Aukland noted that soon after the LASD searches on October 27, Schrettner contacted Assistant U.S. Attorney Crossan Andersen of the U.S. Attorney's Office about the investigation. According to the investigative report, "Andersen feels that this would be an excellent joint narcotics and money laundering case." The report noted that on October 30, 1986, Andersen advised Aukland that "any requests for consensual monitoring, pen registers, etc. should be made through [Andersen]." The report also related that a task force of FBI, DEA, IRS, and possibly Bureau of Alcohol Tobacco and Firearms agents would be created to target the principals of the Blandon organization. Aukland noted:

It is believed the FBI source [referring to LA CI-1] may be able to make cocaine purchases, and if so, appropriate surveillances will be established to identify distributors and stash locations. It is also believed that extensive surveillance of Blandon will prove fruitful in identifying members of the network.

Aukland also contacted the Santa Ana Criminal Investigative Division of the IRS, which agreed to assist the task force investigation in the financial aspects of the case. On November 17, 1986, Aukland wrote another report, stating that he planned to seek OCDETF designation for the case and to obtain an off-site location from which to work it.

OCDETF is a federally funded program within the Justice Department that is intended to enhance law enforcement cooperation in dismantling major drug trafficking nationwide. The OCDETF program is divided into regions throughout the country. Within each OCDETF region, a committee is established that is comprised of representatives from United States Attorneys' offices and from federal, state, and

local law enforcement agencies, to coordinate work on major drug cases. The OCDETF program in the Los Angeles area was coordinated by the Los Angeles U.S. Attorney's Office, and supervised by Assistant U.S. Attorneys Andersen and Jim Walsh, the assistant chief and the chief, respectively, of the Major Narcotics Section of the U.S. Attorney's Office. Andersen chaired an OCDETF committee that met once a week to discuss cases presented for consideration and to decide whether they should be adopted as OCDETF cases. According to Andersen, the practical significance of designation as an OCDETF case was that it meant the case would be managed vertically within the U.S. Attorney's Office -- that is, handled by one prosecutor throughout the various stages of the case -- and it also freed funds in the various agencies for use on the case.

When we interviewed him, Assistant U.S. Attorney Andersen said that in the 1986-1987 period, he was handling a heavy load of drug cases as well as managing the OCDETF program. He supervised ten cases directly and oversaw the other twelve OCDETF prosecutors who had OCDETF cases. He said he had little recollection of the Blandon case, although he recalled the name. When we showed him the paperwork on the Blandon OCDETF case, which indicated that the case was approved by the OCDETF committee and supervised by him, he still had only a slight recollection of it, not remembering its details. Similarly, Jim Walsh, the chief of the U.S. Attorney's Office Major Narcotics Section, remembered the case vaguely but did not recall in detail what happened to it.

Documents in U.S. Attorney's Office and FBI files show, however, that Andersen supervised the Blandon OCDETF case directly. For example, on November 25, 1986, Andersen wrote a letter to the Chief of the IRS's Criminal Investigation Division in Laguna Niguel, California, formally requesting IRS agents to assist in the investigation. The letter, containing the notation "Sensitive Investigative Information," referred to Danilo Blandon, Ronald Jay Lister, and Aparicio Moreno and stated:

As you know this is a narcotics investigation involving FBI, DEA and LASO units in Riverside and Whittier, California, respectively. It is a sensitive matter since it involves allegations of drug running in support of the CONTRA movement in Nicaragua and wholly unconfirmed allegations of CIA involvement.

The letter stated that Andersen had reviewed the investigative leads to date and believed that it was probable that criminal violations had been and were being committed. The letter requested the assistance of IRS agents in the case.<sup>(12)</sup>

## **2. Meeting with Assistant District Attorney Susan Bryant-Deason**

On January 14, 1987, Aukland and Schrettner met with LASD Sergeant Huffman and Los Angeles Assistant District Attorney Susan Bryant-Deason concerning the Blandon investigation. The LASD Report contains a lengthy discussion about this meeting and Bryant-Deason's role in the LASD case. According to the LASD Report, Bryant-Deason referred the case to the U.S. Attorney's Office after this January 14, 1987 meeting. This is not accurate. While the state authorities may have considered it to be a referral, the federal agencies and the U.S. Attorney's Office were already pursuing the matter well before



January 14, 1987.

We interviewed Bryant-Deason about her recollection concerning this meeting. She currently is a Superior Court judge in Los Angeles County. In 1987, she was a Los Angeles Assistant District Attorney who had previously been cross-designated for several years to the Los Angeles U.S. Attorney's Office to prosecute federal drug cases. She told us she had only a vague recollection of the Blandon matter. She recalled that the LASD deputies had set up the January 14, 1987, meeting with her because they were frustrated after the searches had come up dry and they wanted to "brain-storm" about the case. She remembered Aukland and Schrettner attending the meeting, along with Sergeant Huffman. She recalled suggesting that the LASD take the case to the Los Angeles U.S. Attorney's Office, because the District Attorney's office did not have the resources to handle it, and the U.S. Attorney's Office was better suited to handle the matter.

Bryant-Deason thought she recalled hearing at the January 14 meeting that one of the persons whose house had been searched asked to call his CIA operative, and the officers let him make a call. She said that she was also told that the CIA had avowed that this person was not connected to the CIA in any way. She also said that the officers brought a box of documents to the meeting, apparently bank documents, which looked as if they had been neatly copied on a photocopy machine. She remembered being struck by the amounts of money reflected in the bank documents and references to the U.S. Treasury. These most likely were the documents copied by Aukland, containing the records seized from Blandon's house which appeared to be Contra bank accounts.

Bryant-Deason said she had no recollection that the officers already had contacted the Los Angeles U.S. Attorney's Office before their meeting with her. Instead, she recalled volunteering to arrange for someone at the Los Angeles U.S. Attorney's Office to see the officers. After the meeting, and after her supervisors agreed that the case should be referred to the U.S. Attorney's Office, she said she called Jim Walsh, the chief of the U.S. Attorney's Office Major Narcotics Section. Because Walsh was out of town, she spoke to the person next-in-line in that section, who she thought was Assistant U.S. Attorney Andersen.<sup>(13)</sup> Bryant-Deason told us that she had been unaware that the U.S. Attorney's Office was already involved with this investigation. She thought that Andersen told her that the documents were going to be sent to a "special prosecutor" in Washington, who Bryant-Deason believes was the Iran-Contra special prosecutor, and that Andersen later told her the special prosecutor did not express an interest in the documents.<sup>(14)</sup> She did not know what eventually happened to the U.S. Attorney's Office investigation of Blandon, and she said it was never confirmed to her that there was any CIA involvement in the case.

Sergeant Huffman took notes of the meeting with Bryant-Deason. These notes corroborate that the FBI and DEA were already planning to submit the case to the OCDETF committee. The first sentence of Huffman's notes states: "FBI Agent Aukland will present the case of Danilo Blandon to the Organized Crime Drug Enforcement Task Force (AKA Presidential Drug Task Force) next week. At that time it is anticipated that the case will be adopted by the U.S. Attorney's Office via O.C.D.E.T.F for investigation & prosecution." In fact, as we describe below, this occurred the week after the meeting.

### 3. Approval of the OCDETF Case

On January 21, 1987, the Los Angeles OCDETF committee met and formally accepted the Blandon investigation as an OCDETF case. Assistant U.S. Attorney Andersen was listed on the OCDETF Investigation Initiation Form as the case attorney and Aukland was listed as the contact agent. The initiation form stated that the FBI, DEA, IRS, U.S. Customs Service, ATF, and U.S. Attorney's Office approved the case, and it listed the principal targets of the investigation to be Danilo Blandon, Ronald Lister, Norwin Meneses, Aparicio Moreno, Orlando Murillo, and Richard [Last Name Unknown] aka Oklahoma Dick.

The initiation form discussed the background of the investigation, including the source information in DEA and FBI files and the unsuccessful LASD search warrant. The form stated that the goal of the OCDETF task force was to determine the organization's means of cocaine importation, to determine the distribution of income, and to identify and prosecute the main subjects and associates of the drug networks. It stated that an FBI source who was deemed reliable would be the initial contact in the attempt to make drug purchases from the Blandon organization. The FBI and DEA offices in Riverside agreed to assign one agent each to the case, and the IRS committed two agents.

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12. Andersen did not remember this letter or the basis for the section of the letter referring to the Contras and the CIA. He noted that he would normally try to include the IRS in any case where money laundering might be involved.

13. When first asked about this matter in October 1996 by a former colleague in the Los Angeles District Attorney's Office, after the San Jose Mercury News articles were published, Bryant-Deason has stated that the person she thought she spoke to in the U.S. Attorney's Office was the second in command of the OCDETF program; she recalled his first name began with a "D" and his last name began with an "A." Bryant-Deason's colleague later asked her if the Assistant U.S. Attorney she had contacted was Darryl McIntyre (an attorney in the Major Narcotics Section of the U.S. Attorney's Office). She said she thought so, and this was reported in the LASD Report. However, McIntyre was not second in command of the Narcotics Section; Crossan Andersen was. Moreover, McIntyre had committed suicide before the January 14th meeting with Huffman, Aukland, Schrettner, and Bryant-Deason occurred. A Los Angeles Times article published on December 30, 1986, confirmed that McIntyre's body was discovered with a self-inflicted gunshot wound on December 27, 1986. Bryant-Deason told us she was sure she had only one meeting about this matter with the LASD officers and she must have been mistaken when she had guessed that it was McIntyre, rather than Andersen, whom she had called afterwards.

14. Documents from Blandon's house were forwarded by Andersen to the Department of Justice in connection with the Iran-Contra independent counsel's investigation, and Aukland also sent these documents to the FBI in connection with the same investigation. Andersen had no recollection about this or what happened with the documents. Our review of the files of the Office of Independent Counsel

indicates that it did not investigate Blandon or use these documents. FBI agent Michael Foster, who worked on the independent counsel's investigation, told us that the independent counsel's investigation did not focus on drug allegations.

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## **G. The 1987 Los Angeles OCDETF Investigation**

### **1. Investigative Steps**

Pursuant to the OCDETF investigative plan, Aukland leased office space, with FBI funds, near Guerra Auto Sales to manage the investigation, and he also rented vehicles to use in the investigation. He placed pen registers on five business telephones of Guerra Auto Sales and Blandon's residence, and followed up by trying to identify the numbers to which calls were made. The FBI also installed a closed circuit television camera to observe activity at Guerra Auto Sales. According to FBI sources, however, Blandon had become "almost a recluse" after the LASD search warrant, and Ivan Torres was believed to be handling most of the drug trafficking of the organization. Aukland and the FBI's Los Angeles Special Operations Group conducted physical surveillances and "spot checks" on several subjects, including Torres and Lister, but did not see evidence of drug trafficking.

### **2. Confidential Informants**

#### **a. FBI Informants**

Aukland also used three or four informants, including LA CI-1, to attempt to infiltrate the Blandon organization and to purchase cocaine. None of these efforts were successful.

In early 1987, at the FBI's behest, LA CI-1 went to Guerra Auto Sales. LA CI-1 reported that Blandon gave no indication at that time that he was still in the drug trafficking business and did not discuss any other businesses he might be opening.

In May 1987, in another investigative report, Aukland stated that further informant information suggested that Blandon directed associates to traffic the cocaine but that Blandon was very cautious, especially since the search warrants on October 27, 1986.

In a June 30, 1987, investigative report, Aukland related that his sources had been unable to purchase cocaine from the subjects and had been unsuccessful in obtaining up-to-date trafficking and money laundering information.

Stymied in his efforts to infiltrate the Blandon organization with other informants, Aukland was forced to rely on Norwin Meneses, who had agreed to cooperate with DEA. However, there were significant problems in coordinating the use of Meneses among the federal agencies involved, which we now describe.

#### **b. Norwin Meneses**

##### **(1) Meneses agrees to cooperate with DEA**

As we describe in greater detail in the chapter of this report on Norwin Meneses, he was the subject of several investigations by law enforcement authorities in both Nicaragua and the United States before 1986. Meneses was believed to be involved with stealing cars and drug trafficking in both Nicaragua and San Francisco for many years. In the early 1980s, the DEA in San Francisco and elsewhere opened several cases against Meneses, but in none of them was sufficient evidence developed to prosecute him. In 1983, the Internal Revenue Service (IRS) in San Francisco initiated a "net worth" tax case against him. The IRS was only able to determine Meneses' income for one year, and because he was from Nicaragua and could have had sources of income there, the IRS closed its investigation. Several of Meneses' relatives were successfully investigated and prosecuted for drug trafficking between 1982 and 1985, but Meneses was not. [See Meneses section]

In July 1986, Meneses walked into the Costa Rica DEA office and told Special Agent Sandalio Gonzalez that he wanted to cooperate with the DEA. Gonzalez knew about Meneses because he had received information from a confidential source in 1984 describing Meneses as the head of a criminal organization in Costa Rica that smuggled kilogram quantities of cocaine into the United States.<sup>(15)</sup> After talking with Meneses in July 1986, Gonzalez wrote a report stating that Meneses had given several reasons for his cooperation offer:

(a) his desire to clear up a minor problem he has with the IRS, (b) his decision to totally terminate his involvement in drug trafficking activities, and (c) his desire to help the present U.S. Administration's fight against drugs in view of President Reagan's total commitment to free his native land, Nicaragua.

Gonzalez told us that he did not know Meneses' true motives for offering to cooperate, although Gonzalez suspected that Meneses wanted to "get even" with other drug dealers, such as Blandon. Gonzalez said he also thought that Meneses, who allegedly had a wife in Costa Rica and one in the United States, wanted to be able to travel to the United States to see his family.

In his July 1986 debriefing report, Gonzalez noted that Meneses appeared to have the capacity to assist the DEA in major investigations. Meneses related that he was not willing to testify in a United States court, but he was willing to introduce informants to known drug violators inside and outside of the United States. Meneses also claimed to have helped the DEA in the past.<sup>(16)</sup>

Meneses identified to Gonzalez approximately twenty-one major drug dealers. One of these was Danilo Blandon, whom Meneses described as a Sandinista sympathizer who distributed hundred kilogram quantities of cocaine in the Los Angeles area. Meneses described Lister as a close associate of Blandon who, in addition to cocaine trafficking, smuggled sophisticated weapons into Latin America and Asia. Orlando Murillo was said by Meneses to be involved in large scale money laundering from Miami.

Meneses refused to be seen near the U.S. Embassy and said that if his cooperation became known, he would be killed. Meneses also indicated that he did not want to be a registered DEA informant and did

not want money for his efforts.

On July 21, 1986, Gonzalez sent a memorandum asking that the DEA's intelligence database be checked for information on Meneses. DEA's intelligence unit responded that its database contained no outstanding warrants for Meneses, but there had been a prior lookout for him which included remarks that he was alleged to be a financier of a Colombian cocaine connection. On August 25, 1986, Gonzalez sent copies of a report describing the debriefing of Meneses to various DEA offices, including the Los Angeles and San Francisco DEA offices.

Gonzalez said that he suspected, though he had no proof, that Meneses might still be involved in drug trafficking activities. Gonzalez said that he also thought Meneses would be difficult to control, so Gonzalez planned to use Meneses only to introduce other informants into the Bandon organization. Gonzalez told us that when he proposed using Meneses in this way, he was aware that Bandon was the target of a federal OCDETF investigation, but he said he did not know that Meneses was a current target of that case or of any other case, either in Los Angeles or San Francisco.

In the summer of 1986, Meneses began providing Gonzalez with intelligence about Bandon. Meneses reported that Bandon had asked him to participate in flying 500 kilograms of cocaine to the United States through Costa Rica, and that Meneses had been asked to arrange for a refueling stop for the plane in Costa Rica. The plane would then fly to Oklahoma, and the cocaine would be delivered to Bandon in Los Angeles. Meneses also said that Nicaraguan government officials were involved in smuggling cocaine into the United States, which Bandon thereafter distributed. In addition, Meneses gave Gonzalez information that allowed DEA to initiate several cases in Costa Rica and elsewhere, including against Colombian drug traffickers.

In September 1986, Gonzalez proposed in a cable to the Los Angeles DEA office that Meneses be used to introduce a professional informant (referred to here as "DEA CI-1") to cocaine traffickers in the United States. DEA CI-1 was considered to be a "reliable professional" who had successfully worked with the Los Angeles DEA in the past. DEA CI-1 had already begun working in Costa Rica with the DEA and Meneses against a drug trafficker unrelated to Bandon. Gonzalez told us that DEA CI-1 claimed to have worked for the CIA many years before in Europe and the Soviet Union, and the CIA had then turned DEA CI-1 over to the DEA.

On October 9, 1986, Gonzalez formally opened a DEA case on Bandon based on information from Meneses. He forwarded this information to the Los Angeles and San Francisco DEA offices, and it also appeared in the DEA's NADDIS database. Likely in response to this information, on November 6, 1986, DEA Riverside cabled DEA Costa Rica, stating that the DEA and FBI in Riverside were conducting an investigation targeting Bandon, Lister, and others, and that Meneses was a subject of this investigation. The Riverside DEA requested copies of any reports in Costa Rica related to Bandon and Meneses.

In a cable dated November 14, 1986, Gonzalez wrote back that Meneses intended to travel to California in December with DEA CI-1 and was willing to introduce DEA CI-1 to every violator Meneses knew in

the San Francisco and Los Angeles areas, including Blandon and Lister. The cable noted that several DEA agents, including Schrettner in Riverside and Rudy Bareng in Los Angeles, were pursuing cases against these subjects. Gonzalez's cable requested permission from DEA Headquarters for Meneses and DEA CI-1 to travel to California, Miami, and elsewhere to penetrate drug trafficking organizations. This cable was sent to the Los Angeles DEA, but not to the San Francisco office. Gonzalez said this was an oversight on his part.

On December 3, 1986, Gonzalez sent another cable stating that he had received no reply from the Los Angeles DEA concerning his proposed operation with Meneses, and that a reply was needed as soon as possible. This cable was also not routed to San Francisco. Gonzalez reported that Meneses had been identified in the leading Costa Rican newspaper as a major drug trafficker and was being investigated by the Costa Rican government; Meneses was afraid of publicity or deportation and was considering going into hiding. Gonzalez reported that if that happened "DEA would lose what appears to be one of the best sources of information to 'walk-in' to a DEA office in years."

Gonzalez's next report, on December 22, 1986, stated that Meneses and DEA CI-1 had left Costa Rica on December 21 for the United States to participate in the proposed undercover operation. The DEA paid for the informant's travel, and Meneses, who also intended to visit family members, paid his own way. Gonzalez's report was sent to various DEA offices, including the DEA offices in San Francisco and Los Angeles. Gonzalez also opened a file called "Operation Perico" to document information provided by Meneses and DEA CI-1. Gonzalez told us that "perico" means parrot in Spanish, was also slang for cocaine, and also was a nickname used for Meneses.

On December 23, 1986, the Los Angeles DEA sent a cable to Gonzalez stating that it agreed with Gonzalez's proposed use of Meneses to penetrate the Los Angeles drug trafficking organization. But the cable noted that the Los Angeles DEA office had not yet contacted the Riverside DEA office to discuss this issue.

## **(2) Meneses and DEA Informant in California**

In Los Angeles, Meneses arranged meetings among himself, DEA CI-1, Blandon, and Ivan Torres on January 7, 1987, and January 15, 1987. Gonzalez also traveled to Los Angeles during the week of January 12 to coordinate the activities of Meneses and DEA CI-1. On January 18, 1987, after returning to Costa Rica, Gonzalez described in a report what DEA CI-1 had reported regarding the meetings with Blandon and Torres. According to Gonzalez's report, DEA CI-1 related that Meneses had been able to give DEA CI-1 easy entry to numerous traffickers, who openly conducted business in his presence. DEA CI-1 noted that his conversations with the drug traffickers indicated that Meneses apparently had left the drug business two or three years ago; still, they all respected Meneses and referred to him as "El Maestro" (the teacher).

According to DEA CI-1, Ivan Torres, a Colombian national, said that his brothers, Jacinto and Edgar Torres, were distributing up to 1000 kilograms of cocaine on a monthly basis in Los Angeles. Ivan

Torres was interested in purchasing chemicals used in cocaine manufacturing and he asked DEA CI-1 to supply the chemicals to his relatives. DEA CI-1 noted that Ivan Torres was reportedly a high official in the West Coast arm of the FDN. Torres had told DEA CI-1 about receiving counter-intelligence training from the CIA, and had avowed that the CIA "looks the other way and in essence allows them (contras) to engage in narcotics trafficking as long as it is done outside the United States."[\(17\)](#)

DEA CI-1 was also told (the report does not specify by whom) that, up until two years before, Blandon and his organization had been supplying Contra leader Eden Pastora with weapons. Pastora was reportedly living in a residence owned by Blandon in Costa Rica and possibly was involved in drug-related activities with Blandon in Costa Rica. Gonzalez's report noted that some of the subjects appeared to be pro-Sandinista, and others may have been involved in the Contra movement, but that, according to Meneses and DEA CI-1, "these political ideological differences are ignored when the huge profits from drug dealing come into play."

DEA CI-1 also reported that Blandon had become aware of police surveillance of him approximately two weeks prior to the LASD search warrants because Blandon's maid had spotted surveillance vehicles and men with radios near his residence. In the wake of his arrest in October 1986, "Blandon was keeping a low profile and may have turned over cocaine distribution to a black group in South Los Angeles to Jacinto Torres." Blandon apparently cleaned up all his stash houses and dealt through intermediaries, if at all. Both Blandon and Torres told DEA CI-1 that the recent raid was the result of information given to the police by Carlos Rocha, Roger Diaz, and an unidentified third person, and that these individuals would be killed sometime in the future.[\(18\)](#)

DEA CI-1 and Meneses were also planning to travel from Los Angeles to San Francisco in January 1987, where they intended to meet other drug traffickers. Before DEA CI-1 left Los Angeles, Gonzalez arranged for him to meet with Aukland and Schrettner, on January 14.

The information Aukland related in his report about his meeting with DEA CI-1 was much like that in Gonzalez's report, with some small differences. According to Aukland's report, DEA CI-1 said that Blandon had given approximately half his trade, involving the selling of cocaine to Los Angeles "black organizations," to other individuals in Los Angeles, including Ivan Torres. When DEA CI-1 had offered to help Blandon launder money, Blandon had said he had been using Orlando Murillo and a Cuban to launder his funds. DEA CI-1 noted that, according to Torres, Meneses, and Blandon, Torres was the head of the West Coast Branch of the FDN, which was supplying the Contras with weapons. Aukland's report stated, "[DEA CI-1] and Meneses also told DEA that Eden Pastora was then living in Meneses' residence in Costa Rica. Pastora has told Meneses that he (Pastora) wants to be personally involved in cocaine trafficking with the specific purpose of funneling money to the contras in Nicaragua."

In a later report describing additional debriefings of DEA CI-1, Gonzalez related more information from DEA CI-1 about his January 1987 meetings with Blandon and Torres. When DEA CI-1 had asked to borrow a car from Guerra Auto Sales, Blandon assumed DEA CI-1 and Meneses would use the car to deliver drugs, and Blandon had refused to even rent them a car. DEA CI-1 recalled: "Blandon has



apparently distanced himself from the people who work for/with him in the cocaine business, is behaving in a strange way, and has become sort of a recluse. He is having nothing to do with them, but most important, he hasn't paid them any money recently." And according to DEA CI-1:

Ivan Torres claims to be in contact with FBI and CIA representatives as a result of his involvement with the Frente Democratico Nicaraguense (FDN). He claims to have been trained by the CIA in San Bernardino in an area made to resemble Nicaraguan terrain. He said the CIA wants to know about drug trafficking but only for their own purposes and not necessarily to assist law enforcement agencies. He stated that someone in the FBI warned him to stay away from Danilo Blandon and to be careful because Blandon was going to be arrested. (Blandon was in fact arrested by local authorities and was released due to insufficient evidence.) He was allegedly told that Carlos Callejas was under investigation by the FBI, and to stay away from him also. Torres told [DEA CI-1] that CIA representatives are aware of his drug-related activities and that they don't mind. He said they have gone so far as to encourage cocaine traffic by members of the contras because they know that it is a good source of income. Some of this income has gone into numbered accounts in Europe and Panama, as does the money that goes to Managua from cocaine trafficking.<sup>(19)</sup>

Torres was said to be extremely upset with Blandon for failing to help him financially, and, according to Meneses, might even have agreed to cooperate with the DEA.

This report added that Meneses had told of being contacted by Eden Pastora, who had asked Meneses to find a buyer for a DC-3 aircraft located at Ilopango Airport in San Salvador. Pastora's representative in El Salvador was Marcus Aguado. Meneses said that he thought Pastora contacted him because Meneses had contacts in Colombia who were always looking for this type of aircraft for drug smuggling.

According to another report from Gonzalez, in mid-January 1987, DEA CI-1 and Meneses traveled to San Francisco to meet with drug traffickers there, including someone reported to be an intelligence officer for the Nicaraguan government. Gonzalez informed Auckland that Meneses and DEA CI-1 would be traveling to San Francisco.

We found no reports in DEA or FBI files detailing what occurred when DEA CI-1 and Meneses went to San Francisco in January 1987. But DEA CI-1 claimed to us that, one week into their visit, he was warned by DEA agent Eddie Hill that the FBI had issued a warrant for both DEA CI-1 and Meneses because the FBI suspected them of conducting drug deals in San Francisco. According to DEA CI-1, he and Meneses quickly made their way back to Los Angeles and, three days later, returned to Costa Rica.

When we interviewed Hill, who was a DEA agent in Los Angeles at the time, he denied that he ever heard that the FBI had a warrant or was trying to arrest DEA CI-1 or Meneses in San Francisco, and he denied ever telling DEA CI-1 that.

### **(3) Reaction from other law enforcement authorities concerning the use of Meneses**

Our interviews and our review of the law enforcement files suggested a breakdown in communications among the DEA offices and between the FBI and the DEA concerning the DEA's use of Meneses as an informant, as discussed in the previous sections of this chapter. While Gonzalez told us that he was not aware that Meneses was a target of any investigation in Los Angeles in 1986, the November 6, 1986, cable that DEA Riverside sent to Costa Rica asking about the information that Meneses provided about Bandon specifically listed Meneses as a target. As a result Gonzalez should have been aware that Meneses was a target of a case in Los Angeles.<sup>(20)</sup>

FBI agent Aukland told us that he did not learn that Meneses was cooperating with the DEA until January 1987 when Aukland met with the DEA agents in Los Angeles to coordinate the use of DEA CI-1. Although Schrettner and other DEA agents in southern California should have been aware, through Gonzalez's cables, that Meneses was coming to the United States to infiltrate the Bandon organization, they apparently did not share this information with Aukland, who told us he was surprised when he learned it. Aukland said he was particularly angry that he did not get a chance to debrief Meneses and that he only had last minute notice that he could speak to DEA CI-1.

Similarly, the San Francisco U.S. Attorney's Office and FBI offices were disturbed to learn that Meneses and DEA CI-1 were being used as informants in the Bandon investigation. As we describe in detail in the chapter on Meneses, in the fall of 1986, the San Francisco FBI office, in conjunction with the San Francisco U.S. Attorney's Office, had begun collecting information on Meneses in anticipation of building a historical drug trafficking case against him under the federal Continuing Criminal Enterprise statute. According to FBI Agent Donald Hale, the FBI in San Francisco had three informants willing to testify against Meneses and FBI files contained significant source information on Meneses' drug trafficking activities. But the DEA office in San Francisco, which had received cables from Gonzalez in 1986 about Meneses' proposed use, apparently did not share that information with the FBI in San Francisco or with the San Francisco United States Attorney's Office.

On January 22, 1987, Aukland wrote a teletype to FBI Headquarters, copying the FBI's San Francisco office, describing his meeting with Gonzalez and stating that Meneses was being used by the DEA. Gordon Gibler, an FBI agent working on the Meneses investigation in San Francisco at this time, told us that the DEA's use of Meneses was a surprise to him, and that he was upset that the DEA had not shared this information with the FBI.

### **(4) Agreement concerning Meneses**

On January 29, 1987, the DEA San Francisco office cabled DEA Costa Rica, complaining that it had no knowledge of who was being targeted by Meneses and DEA CI-1. The cable claimed, apparently based on discussions between the DEA and FBI in San Francisco, that the San Francisco FBI had "an indictable case against the CI" (a reference to Meneses), and inquired as to which cocaine traffickers Meneses and DEA CI-1 had met in California. The cable asked DEA Headquarters to find out from

DEA Costa Rica whether an indictment of Meneses by the San Francisco FBI "will result in national security problems with other agencies. FBI has requested that [DEA San Francisco] advise them on this issue."<sup>(21)</sup>

DEA Costa Rica responded in a cable on February 9, 1987, pointing out that in the fall of 1986 it had sent cables and reports via diplomatic pouch to DEA Headquarters and various offices, including San Francisco, describing the proposed use of Meneses and listing the targets identified by him and DEA CI-1. The cable also stated that it regarded Meneses as "a major narcotics trafficker whose potential as a [confidential informant-source of information] appears so far to be excellent." Meneses had already introduced DEA CI-1 to numerous major violators. In return, all Meneses wanted was to maintain his anonymity, clean up a problem he thought he had with the IRS, and be able to return to the United States and establish a business. The cable noted that Meneses claimed to have left the narcotics business two years earlier.

The cable also noted that Meneses and DEA CI-1 had met with Blandon and Torres in Los Angeles, and pointed out that while the Costa Rica DEA was not aware of any national security issues that could arise from his indictment, indicting Meneses would prevent DEA from investigating what appeared to be a group of significant traffickers with connections to the present Nicaraguan government as well as the Contras and Colombian sources of supply.

According to a letter in February 1987 from the San Francisco FBI office, San Francisco FBI agents Gibler and Donald Hale met with San Francisco U.S. Attorney Joseph Russoniello and Assistant U.S. Attorney Eric Swenson to discuss Meneses. The San Francisco FBI agents indicated that they would be presenting an historical drug conspiracy case against Meneses to the San Francisco U.S. Attorney's Office for a prosecutive decision. We also found in Swenson's file a note regarding a conversation he had with Los Angeles Assistant U.S. Attorney Andersen on January 30, 1987, in which Andersen reported that "Norwin says won't testify."

On February 17, 1987, the FBI in San Francisco presented its case to the San Francisco U.S. Attorney's Office in a letter discussing Meneses' background and the source information about his past drug trafficking. The San Francisco U.S. Attorney's Office responded with a letter on February 27, 1987, noting that, at a meeting between San Francisco U.S. Attorney Russoniello, FBI Special Agent Hale, and Assistant U.S. Attorney Swenson, it had been agreed, based on representations from Assistant U.S. Attorney Andersen in Los Angeles, who was supervising the OCDETF investigation there, that the San Francisco U.S. Attorney's Office would defer prosecuting Meneses in San Francisco while the Los Angeles investigation into the Blandon organization was pending. The letter stated that the San Francisco U.S. Attorney's Office had been assured by the Assistant U.S. Attorney in Los Angeles that Meneses would "be required to plead guilty to a cocaine-related charge as part of his cooperation agreement," and that the charge would likely be related to cocaine transactions in San Francisco. The letter also stated that Hale and Swenson intended to meet with Assistant U.S. Attorney Andersen and FBI agent Aukland in Los Angeles to confirm this agreement. It concluded by noting that, while the Los Angeles investigation continued, the San Francisco U.S. Attorney's Office would keep its file on Meneses active, and should the cooperation agreement not be carried out, the San Francisco U.S.

Attorney's Office would reconsider prosecuting Meneses.

When we interviewed him, Los Angeles Assistant U.S. Attorney Andersen had no recollection of the cooperation agreement to which this referred, or of meeting with anyone from San Francisco concerning the Bandon case. San Francisco Assistant U.S. Attorney Swenson did not remember there ever being a written cooperation agreement, and we did not find any written agreement in U.S. Attorney's Office or FBI files. Swenson told us that although the San Francisco case against Meneses was old and not overwhelming, his office wanted to ensure that Meneses would plead to a charge relating to San Francisco drug trafficking if law enforcement authorities were going to use Meneses as an informant in Los Angeles.

As a result, the FBI in San Francisco opened a case on Meneses, which it placed in inactive status pending the results of the Los Angeles OCDETF investigation.

### **(5) Attempts to get Meneses and DEA informant back to California**

After DEA CI-1 and Meneses returned to Costa Rica in February 1987, the Los Angeles OCDETF investigators tried to arrange for them to come back to the United States to work on the Los Angeles OCDETF investigation against the Bandon organization. On February 23, 1987, DEA Headquarters reported in a cable to DEA Costa Rica that Assistant U.S. Attorney Andersen had conferred with the San Francisco U.S. Attorney's Office and that there were no immediate plans to indict Meneses, and that any information supplied by Meneses would not be used against him in legal proceedings.

Also in February, the DEA in San Francisco suggested a meeting among Los Angeles and San Francisco DEA and FBI personnel to discuss the cases involving the use of Meneses and DEA CI-1. DEA Costa Rica proposed attending this meeting, along with a coordinator from DEA Headquarters. However, it does not appear that any such meeting occurred.

In March 1987, Schrettner and Gonzalez spoke by telephone concerning the return of DEA CI-1 to Los Angeles to infiltrate the Bandon organization. On April 7, 1987, however, Gonzalez wrote that DEA CI-1 would not travel to Los Angeles without Meneses and that Meneses would voluntarily cooperate only under certain conditions that could not be met as long as he was the target of a domestic United States drug investigation. Gonzalez wrote that the DEA Costa Rica had therefore "terminated contact" with Meneses and awaited his indictment and a request for extradition by the FBI.

Meanwhile, DEA CI-1 continued to provide information on Bandon to Gonzalez in Costa Rica. In a May 13, 1987, debriefing report, Gonzalez noted that, according to DEA CI-1, Bandon had relocated to Miami, where Orlando Murillo was reportedly buying a house for Bandon, and that Bandon was planning to continue to distribute cocaine to his customers through intermediaries. This report was provided to Auckland. Days later, Auckland and Schrettner met with Assistant U.S. Attorney Andersen, who called Gonzalez in Costa Rica to ask whether DEA CI-1 would return to Los Angeles. Although Gonzalez stated that he doubted that DEA CI-1 would travel to Los Angeles without Meneses, Gonzalez

promised to tell DEA CI-1 that Assistant U.S. Attorney Andersen wanted him to continue his infiltration of Blandon's organization in California. Gonzalez noted that DEA CI-1 did not want to work with the FBI, because of a bad experience with the FBI in the past. Gonzalez also said that he was being transferred to Bolivia soon and would be handing the matter over to another DEA agent.

On May 19, 1987, DEA Headquarters cabled Gonzalez that the Los Angeles DEA was requesting that Meneses and DEA CI-1 return to California to meet with Blandon. The cable noted, based on information from Assistant U.S. Attorney Andersen and the DEA in Los Angeles, that there was no indication that the FBI planned to have Meneses indicted and no indication that he would be arrested if he came to the United States.

In a response on June 8, 1987, Gonzalez wrote that, based on the representation that Meneses would not be indicted, the DEA in Costa Rica had reestablished contact with Meneses. Gonzalez reported that Meneses would be willing to continue to provide information to the DEA under certain conditions: (1) that his identity not be revealed to anyone outside DEA; (2) that he would not be required to testify in any court of law and not be interviewed by any government prosecutors or any government agents outside of the DEA; (3) that he speak only to DEA CI-1, Gonzalez, or Los Angeles DEA agent Rudy Bareng, and (4) that he be allowed to live in the United States and that his resident alien status be reinstated. Gonzalez wrote that if these conditions were met, Meneses agreed to do everything possible to assist the DEA, "to go anywhere at anytime and give completely of his knowledge and experience of over 20 years in the drug business. Considering [Meneses'] background and potential [DEA Costa Rica] is requesting [DEA Headquarters] concurrence that his identity be protected . . . "

On June 24, 1987, Gonzalez wrote another cable stating that Meneses' continued cooperation hinged on DEA's willingness to guarantee that his identity would not be revealed in judicial proceedings initiated as a result of his information. It also stated that Meneses was fully capable of initiating major investigations in the United States, Mexico, Ecuador, and Colombia.

DEA Headquarters responded on June 26, 1987, refusing to guarantee that Meneses' identity would not be revealed in any judicial proceeding. It noted that, in extraordinary circumstances, such guarantees could be given with the concurrence of a prosecutor, but that this case did not meet such criteria.

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15. The confidential informant also provided information about other persons who smuggled weapons to leftist guerrillas in El Salvador, and that information was passed to the CIA.

16. This referred to Meneses' meeting with a DEA agent in 1982, which we discuss in the chapter of the report on Meneses.

17. When we interviewed DEA CI-1, he said that Torres had said that the FBI, not the CIA, "looks the other way" while the Contras engage in drug trafficking.

18. As a result of DEA CI-1's report, the FBI decided to inform Rocha about the threat from Blandon. On February 19, 1987, an FBI agent called Rocha and warned him about the alleged threat.

We interviewed Rocha concerning these issues. He said that he had met Blandon in 1981 through the FDN in Los Angeles. In 1984, Rocha started working at Blandon's car dealership, running errands for Blandon. Rocha also met Aparicio Moreno in 1985.

Rocha said that in the summer of 1986, FBI agents questioned him about Blandon's drug operation. Rocha reported the FBI contact to Blandon. When Rocha told Blandon that he had mentioned to the FBI about Blandon's rich uncle in Miami, Orlando Murillo, Blandon became angry. Rocha thought that after this Blandon believed that Rocha was working for the FBI. Rocha stated that in 1987, he received a call from an FBI agent, who said to be careful because "they" were going to try to kill him. The FBI agent did not identify "they."

In November 1987, Rocha traveled to Guatemala to pick up a plane for Aparicio Moreno, but the plan was disrupted by a Guatemalan coup. On November 13, 1987, while Rocha was in Guatemala, a gunman entered his room and shot him five times in the legs and the groin area. Rocha said that he spoke to Blandon recently, in the spring of 1997, and Blandon denied any involvement in the shooting.

We also interviewed Blandon about this allegation. He denied threatening to kill Rocha or having anything to do with the shooting of Rocha. Blandon said that Moreno reported that Rocha had been with a woman friend of a Colombian, a "big guy in Guatemala," who tried to have Rocha killed in Guatemala.

19. We interviewed Torres about these claims. When asked about any ties to the CIA, as he had claimed to the confidential informant, Torres denied having any. Torres stated that he recalled a meeting at a restaurant with Blandon, Meneses, and a third man who was Meneses' friend. Torres said he thought he may have said that the CIA was helping them, but it was "bullshit," and everyone went along with the joke. He said everything he had said about the CIA was a joke, and that they were trying to impress the third man, who they suspected might be an informant.

20. From the summer of 1986 to the summer of 1987, Gonzalez used Meneses as a "source of information" rather than as an informant. The DEA's manual of procedures describes a "source of information" as "a person or organization, not under the direction of a specific agent, who provides information without becoming a party to the investigation itself." By contrast, "an informant [is] a person who, under the direction of a specific DEA agent, and with or without expectation of compensation, furnishes information on drug trafficking or performs a lawful service for DEA in its investigation of drug trafficking." The DEA's manual of procedures states that the record of all informants must be checked in federal law enforcement databases (NADDIS and National Crime Information Center (NCIC)) before the informant is used, and if there is a reason to believe that the informant has committed a serious criminal offense, the appropriate law enforcement agency having jurisdiction over the crime and the appropriate U.S. Attorney's Office must be notified. The procedures

also require "thorough coordinat[ion] between the DEA and FBI" whenever there is an attempt to recruit an informant who is a "significant target in an active or pending DEA or FBI investigation."

Gonzalez said that he used Meneses as a source of information rather than as an informant because Meneses initially refused to sign DEA's informant registration. Gonzalez admitted that this was unusual but said he did it because of Meneses' background and potential to make cases. Gonzalez said the DEA had no "hammer" over Meneses, who refused to testify in court but who was willing to make introductions and provide information to the DEA. Gonzalez said that Meneses did provide valuable information and, in fact, was the first DEA source of information about heroin processing in Columbia. However, Meneses was not listed as an informant in the DEA's database, and other DEA offices could not get information on Meneses' use by the DEA through this database.

Schrettner reported to us that he did not consider Meneses a target, notwithstanding his November 1986 cable listing Meneses as one of the subjects of the investigation. He said that while Meneses was one of numerous individuals whose name was involved in the investigation, the Los Angeles case started with the Bandon organization but never got past Bandon to target Meneses.

21. The cable does not state why the FBI in San Francisco was questioning whether an indictment of Meneses would result in national security problems. However, as noted above (see Chapter III, section E), the San Francisco FBI had source information claiming that Meneses may have worked for the CIA. In addition, the Iran-Contra Independent Counsel's investigation was just beginning at the time of the cable, and Meneses was known to have ties to the Contras.

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## H. Closure of the OCDETF Case

In July 1987, DEA CI-1 came to California without Meneses, apparently through the efforts of Assistant U.S. Attorney Andersen. DEA CI-1 was debriefed by Aukland and Schrettner on July 10 and 13. According to a later memorandum from Aukland, DEA CI-1 refused to testify in court, although he was still willing to contact drug traffickers. It also appears that DEA CI-1 did not appreciably add to the information he had already given. He did note having heard from Blandon that, during the October 27 search of Blandon's house, the deputies had failed to locate \$850,000 hidden in a safe in the bottom of the swimming pool at Blandon's residence.<sup>(22)</sup> And Ivan Torres was said to claim that he spoke regularly with FBI agents regarding his FDN activities and that he was kept aware of any police investigations against Blandon and himself. A report by DEA SA Schrettner stated that the FBI "disclaims any association with Torres."

Shortly after Aukland's debriefing of DEA CI-1, the Los Angeles OCDETF case was declined for prosecution and closed. Aukland wrote a closing memorandum on September 16, 1987, which stated that on July 17, 1987, Assistant U.S. Attorney Crossan Andersen had declined prosecution of the OCDETF case "based upon the inability of investigative techniques to adequately prove criminal allegations." Aukland sent the memorandum to several FBI offices, including Miami and San Francisco, and noted that Blandon had moved to Miami and was living in a home purchased by Murillo.

Aukland's frustration with the OCDETF case and the problems coordinating the use of Meneses was evident in his closing memorandum. He related in the memorandum how the informants' efforts to infiltrate Blandon's organization had not been coordinated with the Los Angeles OCDETF task force, and how, although DEA CI-1 had returned to Los Angeles in July 1987, he had "quickly made it clear that he would not testify, even though he would be agreeable to contact appropriate subjects and associates. This was not agreeable to the case agent [Aukland] and AUSA Andersen." The memorandum also noted that Aukland learned in July 1987 that the DEA was making efforts to have Meneses return to San Francisco to work as an informant, without adequately notifying the FBI or the U.S. Attorney's Office. The memorandum ended: "In conclusion, it appears that this case may have been viable with the assistance of DEA. However, without that assistance, further efforts will not be worthwhile."<sup>(23)</sup>

Despite the refusal by DEA Headquarters to guarantee the protection of Meneses' identity, which was said to be a condition of his cooperation, on July 24, 1987, Gonzalez nevertheless established Meneses as an informant, proposing that he travel in 1987 to Miami, San Francisco, Venezuela, Colombia, and elsewhere to meet with drug traffickers. As we describe in the chapter on Meneses, he worked as a DEA informant from 1987 to 1990, traveling to the United States and elsewhere several times on behalf of the DEA.

When we interviewed Aukland, he described the problems of the case "in a nutshell": He was not getting sufficient help from the FBI in Los Angeles, Miami, or elsewhere with the case; the Los Angeles FBI was busy with other cases; Aukland could not penetrate the Blandon organization with informants; he



did not think he was getting cooperation from the DEA in Costa Rica; and Blandon had left Los Angeles for Miami. Aukland said he sent all the pertinent information to the Miami FBI and forwarded to Miami his closing memorandum. Aukland said that when he did so, he was so frustrated with the case that he was glad to get rid of it. Aukland said, however, that no one from the CIA contacted or pressured him, or anyone else, concerning the conduct of his investigation or the decision to close the case.

Schrettner also wrote a closing memorandum in the case. Dated August 17, 1987, it noted that Blandon was relocating to Miami and closing his auto sales business. The memorandum stated that, according to Torres, the Blandon organization had never completely relaxed after the LASD searches, and Blandon continued to distance himself from the distribution of cocaine. Schrettner reported that attempts by informants to purchase cocaine from the Blandon organization had proven unsuccessful. He wrote that analysis of pen register and telephone toll records also were inconclusive, and the amount of narcotics-related telephone conversations was far short of that required to obtain authorization for a wiretap. He pointed out that the lead investigative agency, the FBI, had withdrawn from the OCDETF investigation and was not taking further action. He noted that the IRS was planning to pursue a tax investigation into Blandon, Murillo, and Lister, but that the tax investigation, by its nature, had to be overt. Schrettner concluded that in light of those facts, the withdrawal of the FBI, the lack of investigative leads, and the slim chances of success, the case was being closed by the DEA.

When we interviewed Schrettner, he gave much the same explanation for the closure of the case. He recalled that the lack of success in the case was disappointing, especially for Aukland, because it was one of the first drug cases worked by the FBI's Riverside Office. Schrettner said that he had agreed with the way Aukland handled the case, but, in retrospect, it was simply a matter of bad timing because the Blandon organization was shutting down after the search warrants were executed. Schrettner said they had not considered trying to make a historical conspiracy case against Blandon, because there was no seizure of any drugs, and no corroboration about specific incidents of drug dealing. Schrettner acknowledged that Aukland had wanted more DEA help on the case, but Schrettner explained that, at the time, he was working numerous heroin cases in Los Angeles -- more than he could handle -- and did not have a significant amount of time to work on the Blandon case.

Schrettner did not recall any friction regarding the use of Meneses or DEA CI-1, and did not recall Aukland's being upset with the DEA. But Schrettner reiterated that he had been somewhat removed from the Blandon investigation, because of his other commitments. Schrettner said, however, that he did not agree that the DEA impeded the investigation, and pointed out that the DEA in San Diego later made the case against Blandon. Like Aukland, Schrettner made clear that he had never perceived any effort by anyone in the CIA or any other agency to obstruct the case.

Gonzalez told us that he recalled being informed by someone (he cannot recall by whom) that the FBI San Francisco was upset with the way DEA had handled Meneses' travel to the United States and return to Costa Rica. Gonzalez said his response was that if the FBI wanted to have Meneses arrested, it should have obtained an arrest warrant, and DEA Costa Rica would have been happy to execute it, since it would have given DEA a "hammer" over Meneses. But Gonzalez did not recall receiving any complaints from Riverside or Los Angeles DEA or FBI agents about his handling of Meneses. Gonzalez said that he

believes that the source of any unhappiness was the FBI's preference to control Meneses and DEA CI-1 itself.

## **I. Transfer of the Case**

Although the Los Angeles U.S. Attorney's Office was unable to find an OCDETF case closing form, a memorandum from Andersen in August 1987 indicates that the tax portion of the Bandon case was going to be reassigned to another Assistant U.S. Attorney. A later handwritten note concerning this transfer was found in U.S. Attorney's Office files. The note, written on May 10, 1988, was from Jim Walsh, the chief of the Narcotics Section, to Gordon Greenburg, the Assistant U.S. Attorney in charge of the Financial Investigations Unit of the Narcotics Section. It stated:

Would you please re-assign this OCDETF case to someone in your unit? The case used to be known as Danilo Bandon LACAC078 when [Andersen] had it; now the only remaining vital aspect is a tax investigation against a subject named Lister. Let me know who you select.

According to Los Angeles U.S. Attorney's Office records, a formal reassignment was not made until February 23, 1989, when Mark Byrne, an attorney in the Financial Investigation Unit of the Narcotics Section, was given the IRS portion of the case, which targeted only Lister. When interviewed, neither Walsh, Andersen, or Byrne recalled why the tax case was pursued against Lister alone. Laura Hillhouse, the IRS agent who handled the tax case, told us that evidence against Bandon was "thin" as far as a prosecution for financial violations. She recalled that Bandon had one inexpensive house in the San Bernardino area, that he did not own the land where his business was located, and he did not seem to own a lot of other assets. Hillhouse said that Lister, on the other hand, paid cash for his house, had extensive remodeling done on his home, and had left a good paper trail on which to base a financial investigation.

## **J. Assessment of the OCDETF Investigation**

Although the 1987 OCDETF investigation of the Bandon organization was unsuccessful, we did not find that its failure was caused by interference from the CIA or from any other government entity. We found no evidence that anyone from the CIA, or any officials in Washington, interceded in the case or caused the Los Angeles investigators or prosecutors to change their investigation in any way.

The reasons why the case failed appear to have nothing to do with the Contras or the CIA. First, there were insufficient resources assigned to the case. Aukland was the only person working on it full-time, and he did not receive much investigative support from within or outside the FBI, despite the designation as an OCDETF case. This designation does not guarantee adequate resources or that the various agencies in OCDETF will devote sufficient attention to a matter. In the Bandon OCDETF case, Aukland appears to have worked it energetically, but he had little help.

Second, Bandon had stopped dealing drugs openly and had moved from Los Angeles to Miami in the wake of the unsuccessful LASD searches in October 1986. As a result, efforts to make cocaine purchases from him or his organization were unsuccessful.

Third, as Aukland noted and our review found, there were problems of coordination among the various federal law enforcement entities, particularly regarding the use of Meneses. Meneses' travel to Los Angeles was not adequately coordinated among all federal law enforcement offices. There were inadequate consultations between the FBI and the DEA on the issue of whether it was better to consider Meneses a target or a source of information. Aukland did not even know Meneses was in Los Angeles until after Meneses had made contact with Bandon, and Aukland never had a chance to debrief Meneses. Aukland's contact with DEA CI-1 was fleeting. We also found that the DEA did not adequately inform the FBI in Los Angeles or San Francisco, or the U.S. Attorney's Office in San Francisco, all of which were investigating Meneses, about his use as informant. Then, after Meneses returned to Costa Rica, he made unacceptable requests for various guarantees before he continued to cooperate, and DEA CI-1 refused to testify in any case, reducing their usefulness in the investigation. After the case was declined for prosecution, however, Meneses was established as an informant and traveled to the United States on behalf of the DEA.

In March 1990, the General Accounting Office (GAO) issued a report entitled "Justice Department: Coordination between DEA and the FBI," which discussed the relationship of the FBI and DEA in investigating drug trafficking. The GAO reviewed several cases for its report, including the Bandon case. The report did not detail what the GAO found regarding any individual case. But the GAO concluded that the DEA and the FBI for the most part operated independently, an assessment which had validity in this case.

In sum, we found clear evidence of problems in the conduct and coordination of this investigation, but these appeared unrelated to the allegations of improper interference by officials from the CIA or other federal entities.

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22. Bandon later told us that this was not true. He said he hid a safe in a swimming pool in another house that was searched, not his house, but that there was no money in that safe.

23. We found no FBI records indicating that the Miami FBI office conducted any additional investigation of Bandon after receiving Aukland's closing memorandum.

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## **K. Allegation that Blandon received special treatment in the 1992 San Diego prosecution of him**

The allegations that law enforcement authorities, at the behest of the CIA and others, intentionally protected Blandon go beyond the unsuccessful LASD and OCDETF cases and extend to the case in which a federal prosecution was actually brought against him in 1992. In this context, the claim is that Blandon's alleged Contra connections led the government to give him a "sweetheart deal." We have found no credible evidence to support this claim. Blandon was indeed treated quite leniently. But the reason he received a substantial sentencing discount was the degree to which he cooperated with the government in the prosecution of others. This resulted in his receiving treatment comparable to what is received by others who provide substantial cooperation to the government.

### **1. Background**

Blandon told the OIG that he moved to Miami in 1987, bought into a restaurant and rental car business and, at least according to his statements to OIG investigators, did not engage in drug trafficking. Law enforcement records from the time suggest that Blandon continued some illegal activities during this period from Miami, primarily planning to build a business laundering money for other traffickers. In 1989, more informant information suggested that Blandon was engaging in or planning drug transactions. (For a description of his contact with Ricky Ross during this period, see the chapter on Ross.)

According to Blandon, he suffered some reverses in the rental business, and returned to Los Angeles in 1990 and again began drug trafficking there. Blandon told the OIG that he was unable to supply enough cars to meet tourist contracts he had made and lost a substantial amount of cash very quickly. Relying on Colombian suppliers in San Francisco, he again began selling substantial quantities of cocaine -- up to 25 kilograms at a time -- to various dealers connected with Ricky Ross. In 1991, after running up a big debt to his suppliers, Blandon decided to stay away from Los Angeles, and moved to San Diego, where he had already been spending a considerable amount of time.

Even before Blandon relocated to San Diego, he had sought to pursue trafficking activities with a drug trafficker there, John Arman. But Arman was cooperating with the DEA at the time, which led the DEA Office in San Diego to open a case on Blandon in 1990. Special Agent Charles Jones told the OIG that his entire DEA group worked on the case against Blandon, which received OCDETF designation in December 1990. The OCDETF application noted that Blandon headed a criminal organization that operated internationally from Colombia and Bolivia through the Bahamas, Costa Rica or Nicaragua to the United States. Norwin Meneses, Roger Sandino, and Aparicio Moreno were identified as "other significant leaders." The organization had several different sources of supply. Cocaine supplied by the Suarez family in Bolivia came through the Bahamas to Miami. Cocaine from the Ochoa family of the Medellin Cartel in Colombia came through Costa Rica or Nicaragua to Miami, or through Costa Rica or Nicaragua to Mexico and then Los Angeles. The application noted that "Blandon et al" had been operating out of the United States since at least 1982, primarily from Miami and Los Angeles. It also

suggested that Blandon had amassed millions of dollars from trafficking, and was smuggling approximately 2000-3000 kilograms of cocaine into the United States per year. Ivan Torres, Sergio Guerra, and Orlando Murillo were said to supervise money laundering and the investment of cocaine profits. Recounting the organization's history, the application said that "Norvin Menesis-Cantarero [sic]" had helped Blandon get started in drug trafficking in Los Angeles, and that, between 1982 and 1984, Blandon had "operated directly under Menesis [sic]." It noted: "In 1984, Blandon disassociated himself from Menesis [sic] and began to work as an independent drug distributor with several subordinates working directly for Blandon." The application listed, as principal targets, Blandon, Meneses, Roger Sandino, Sergio Guerra, Aparicio Moreno, Ivan Torres, Orlando Murillo, Margarita Castillo, Chepita Blandon, Bill Downing, Richard Orgel, David Stewart, Ron Lister, and David Box. Nowhere in the application is there any mention of the Nicaraguan Contras.

San Diego Assistant U.S. Attorney Amalia Meza, DEA Special Agents Jones and Judy Gustafson, INS Special Agent Robert Tellez, Jr., IRS Special Agent Anne Luna, and U.S. Customs Service Special Agent Dave Nehls were assigned to the OCDETF team targeting the Blandon organization.

DEA Special Agent Jones told us that he obtained historical information about the Blandon organization from the DEA Riverside agents who were involved in the Los Angeles OCDETF investigation in 1987, and he also used the informant, LA CI-1, from that case. But neither Jones nor Gustafson said they were familiar with many aspects of the previous case, including the 1986 LASD searches, let alone what had been seized in them.

## **2. Initial Phase of the Investigation**

Five informants were used in the Blandon OCDETF investigation, including LA CI-1. Because LA CI-1 had broken contact with Blandon and did not wish to reestablish contact or work in the drug trade again, he provided only background information. In July 1991, one of the informants (hereinafter "DEA CI 19") said he had worked for Blandon, who, he related, had extensive contacts in the Nicaraguan government and obtained cocaine from the Cali Cartel on credit. DEA CI 19 explained that the cocaine for Blandon's trafficking came from the San Andreas islands off the coast of Colombia to a small town in Nicaragua. It was then transported by truck through Managua and Mexico to Tijuana, where Blandon's friend Sergio Guerra smuggled it across the border, with help from a corrupt border patrol contact. DEA CI 19 stated that Blandon distributed cocaine in a number of cities: in San Francisco, through Chinto Torres; in New Orleans, through three "white guys"; in Los Angeles, through "leaders of black gangs,"; and in San Antonio, Texas, through some Mexican-Americans. Miami was said to be the "nerve center" of Blandon's operation, where Blandon kept at least two cars modified for smuggling. DEA CI 19 stated that he had driven cars loaded with cocaine numerous times and was paid between \$1000 and \$1500 per trip. He never saw any cocaine during these trips; he would pick up a car already loaded with cocaine that had been left in a lot with the keys hidden under the dash. He would then drive the car and leave it somewhere, never meeting the persons who had supplied or received the car.

Another informant in the San Diego OCDETF case was Ronald Lister, who was then in jail facing

pending federal drug charges. Lister was released on bail to cooperate with the DEA, which he did, at least for a time. Lister provided largely historical information on Blandon's drug dealing in the late 1980s, but he had no contemporary information on Blandon's activities. Lister was rearrested several months after his release and his cooperation with the government terminated. [See the chapter on Lister for a fuller discussion of his cooperation.]

### **3. Allegations Regarding Blandon's ties to the Contras and the CIA in the San Diego OCDETF Investigation**

Beside claims made by Ronald Lister, which we will discuss in the chapter devoted to him, the only indication that the Contras or the CIA came up during the San Diego OCDETF investigation comes from INS Special Agent Tellez. In a February 15, 1991, memorandum, Tellez reported that DEA case agent Gustafson had briefed him on the OCDETF investigation, and noted:

Intelligence information provided should be highly protected. This major cocaine traffickers [sic] may have had a degree of influence from the C.I.A. Information from CI's states that they are free game and do not have any protection from any government agency, to there [sic] knowledge.

When interviewed by OIG investigators and asked about the source of this information, Tellez explained that it was just a rumor that he had received from a confidential informant and that he could provide no further information about this claim. Although Tellez had also told an Immigration Examiner that Blandon knew people who had contacts with the CIA and the Contras, Tellez told the OIG that he was just trying to impress the examiner so that he would expedite Blandon's application (see section L).

### **4. Blandon's Arrest at the Border**

On August 26, 1991, in a random search of southbound cars, U.S. Customs Service agents stopped a car driven by Sergio Guerra-Deguer (Guerra) at the Mexican border and found \$117,040 in cash and money orders in the car's trunk and glove compartment and in Guerra's wallet. Blandon was a passenger in the car. Blandon later told OIG investigators that, although the two were on their way to meet a Colombian supplier in Tijuana, he had not even realized that Guerra had the checks, because Guerra was supposed to have mailed them.

Guerra was already the subject of a money laundering investigation by Assistant U.S. Attorney L J O'Neale in San Diego, based on undercover conversations indicating that Guerra owned the Gateway parking lot next to the United States border and may have purchased it with drug proceeds. As a result, Assistant U.S. Attorney Meza, who was handling the OCDETF investigation of the Blandon case, transferred that case to O'Neale. Meza believed that her case against Blandon was weak, particularly after Lister ceased his cooperation. O'Neale thus took over the entire investigation against Guerra and the Blandon organization.

The Customs agents who arrested Guerra and Blandon were unaware that they were the subjects of other investigations. Although Guerra was soon indicted by a federal grand jury for bringing undeclared currency over \$100,000 across the border, the U.S. Attorney's Office later obtained the dismissal of the indictment without prejudice, so that O'Neale could seek a more comprehensive indictment against both Guerra and Blandon. We found no indication that the dismissal of this indictment, or the decision not to include Blandon as a defendant in this indictment, was attributable to a Contra or CIA connection.

## **5. Blandon's 1991 Arrest in Los Angeles**

Los Angeles Police Department officers and federal agents had been tracking Colombian citizens Raul Vega, Luis Ferney Castro and others for some time. On December 9, 1991, they observed Mauricio Gonzales, a driver for Blandon, pick up Castro. Gonzales and Castro then changed to an identical car, and they drove back to where Gonzales had picked up Castro originally. When Castro got out of the car with a black nylon duffel bag, he was followed and arrested. In the bag was a large amount of United States currency. Gonzales was followed to an apartment building where he met Blandon and Vega and drove away. Soon thereafter, Blandon and Vega were arrested. Agents found a considerable amount of cash on Blandon, together with a dollar bill that was folded up and contained a small amount of white powder resembling cocaine. (Blandon later told the OIG that he had been delivering \$90,000 to his Colombian supplier through Vega that day; the rest of the money seized from Vega had not been from him.)

Although the Los Angeles District Attorney's Office brought money laundering and other charges against Blandon and others, the charges were soon dropped, ostensibly for insufficient evidence. In reality, the San Diego U.S. Attorney's Office asked the Los Angeles authorities not to proceed, so it could continue its drug investigation of Blandon and his organization. The money, however, was not returned.

## **6. The Indictment**

The San Diego OCDETF investigation continued, and, on May 5, 1992, a sealed indictment was returned against Blandon, Guerra, Chepita Blandon, Armando Reyes, Mauricio Gonzales, Raul Vega, and Eduardo Cardona, charging them with conspiracy to possess cocaine with the intent to distribute it, in violation of Title 21, United States Code, Sections 846 and 841(a)(1). The indictment alleged that Blandon had bought wholesale quantities of cocaine from various suppliers, including Eduardo Cardona, and that Blandon's wife, Chepita, had reviewed all of his proposed transactions, had arranged for the payment of the organization's expenses, and had supervised "at least one of [Blandon's] distributors of smaller amounts of cocaine." The indictment also charged that Blandon had directed the activities of Reyes, Gonzales, Vega and others in storing, concealing, transporting, and distributing wholesale quantities of cocaine. The indictment went on to charge the defendants with conspiracy to launder narcotics proceeds in violation of Title 18, United States Code, Section 1956(a)(1)(A) and (B), and also charged Blandon and Guerra with laundering narcotics proceeds, failure to file a required financial report, and false statements stemming from the border stop on August 26, 1991.



According to Assistant U.S. Attorney O'Neale, the case against the defendants was reasonably strong, although not without its limitations. He noted in an internal memorandum written at the conclusion of the case:

This was a historic, no-dope conspiracy to sell cocaine. Through some twists of fortune for the lead defendant, every attempt to catch him with powder in his hands failed -- at one point, he was informed that a [confidential informant] had been arrested and aborted a 125 kilo deal hours before consummation.

O'Neale told the OIG that, while it was not common to bring historical conspiracy cases in his district, he had felt that the case against Blandon was strong based on numerous recorded conversations in which Blandon discussed drug trafficking. The government also had five cooperating informants who could testify to Blandon's drug trafficking network. O'Neale believed that the drug case against Blandon was "triable" -- meaning that there were no guarantees of a guilty verdict -- and that the money laundering case was stronger.

## **7. Blandon Begins to Cooperate**

On May 15, 1992, INS agent Tellez asked Blandon to come to the INS office to obtain his green card. When Blandon arrived, DEA agents Jones and Gustafson arrested him and his wife. In court, Assistant U.S. Attorney O'Neale moved to hold both Blandon and his wife without bail pending trial. Tellez also had an INS detainer placed on Blandon. The court ordered Blandon held without bail.

Several weeks after Blandon's arrest, his attorney approached O'Neale about the possibility of Blandon providing cooperation to the government. According to O'Neale, he responded by saying that Blandon would have to give the government the "moon and stars" to get any kind of reduced sentence. Despite O'Neale's apparent initial skepticism, Blandon soon began cooperating, providing information about other traffickers to agents and making numerous monitored calls to other traffickers from jail.

At the time Blandon's offer to cooperate was being considered, the DEA's NADDIS database included the allegations from an informant in January 1987 that Blandon had planned to have three informants killed. The NADDIS database also contained information from another informant arrested in Texas that the informant was worried about giving information to the authorities because Blandon had already "killed 3 persons [in the] U.S." According to DEA reports, no further details could be obtained from this informant. These are references to Blandon's alleged statements to DEA CI-1 about his plans to kill Carlos Rocha and others for informing on him, discussed in section G. When asked by the OIG as to the extent of his inquiries into Blandon's background before using him as a cooperating informant, DEA agent Jones said that he had no knowledge that Blandon had killed anyone, and did not recall seeing such information in NADDIS. Jones advised that he would not have followed up on such information anyway, if it had merely been the unsubstantiated word of an informant.

No bail was ever granted to Blandon, but Jones said that Blandon was periodically removed from jail for

undercover meetings with other drug traffickers, who were unaware that Bandon had been arrested. To accomplish this, Assistant U.S. Attorney O'Neale obtained permission from the Department of Justice's Office of Enforcement Operations in Washington, D.C., and he also obtained a sealed court order from the sentencing court for Bandon's temporary removal from incarceration. Each operation using Bandon outside of the jail was heavily controlled by approximately 10 to 12 DEA agents. At the end of each day, Bandon was returned to the Metropolitan Correction Center (MCC).

## **8. Bandon's Drug Trafficking Information**

According to DEA and San Diego U.S. Attorney's Office records, in debriefings following his decision to cooperate, Bandon spoke extensively about his own trafficking operation -- including his dealings with Ricky Ross -- and also provided considerable information about other traffickers still at large.

As a result of Bandon's cooperation, his co-defendant Guerra pled guilty to money laundering. According to DEA and U.S. Attorney's Office records, Bandon also:

- Aided the DEA and local police in attempting to infiltrate three major drug organizations and a large company involved in drug trafficking and money laundering. However, Bandon was compromised in all four of these investigations by unknown persons when targets learned of Bandon's status in prison and no arrests were made.
- Introduced undercover agents into a large-scale drug organization that was the subject of an FBI wiretap investigation. The undercover agents were able to obtain samples of cocaine from the organization.
- Introduced undercover agents to a major trafficker who was subsequently murdered. He then introduced the undercover agents to the brother of the target and the agents were able to gather significant information about the organization. Bandon was released from prison in order to aid in this investigation. The investigation was compromised when the head of the organization made inquiries and learned that Bandon was in custody.
- Cooperated against Rafael Cornejo in San Francisco and testified in the grand jury against him. Although Bandon did not testify at Cornejo's trial, he provided information about the locations of suspects in the investigation and documented loads of cocaine received by Cornejo and distributed by his organization.
- Provided information to agents concerning a corrupt U.S. Customs Inspector. An undercover agent was introduced into a drug trafficking organization that used the corrupt official to get cocaine into the United States. The Customs Inspector and two others were eventually indicted and convicted on charges of conspiracy to import cocaine.
- Bandon was also prepared to testify against one of the heads of a Bolivian cocaine cartel. A

decision was made that Blandon would not testify because of the danger that he faced in federal custody from the defendant and members of his organization. The defendant was convicted without Blandon's testimony.

- Introduced undercover agents to two additional cocaine dealers, and the agents successfully purchased cocaine or other narcotics from these targets.
- At the time of his sentencing, Blandon was involved in four additional investigations into large scale cocaine organizations. These investigations were in the preliminary stages, although the plan was for Blandon to introduce undercover agents or sub-informants to the targets.

Finally, Blandon was debriefed extensively by the FBI regarding Norwin Meneses and his organization and agreed to testify against Meneses if he is ever brought to trial in the United States. (See Chapter III for a discussion of the case against Meneses)

## **9. Blandon's Post-Cooperation Statements Regarding the Contras and the CIA**

O'Neale and DEA Agent Gustafson have substantially similar recollections of what Blandon said during his debriefings regarding the Contras. Blandon spoke of his Contra sympathies but did not claim to be a member of that group. He had first become involved in trafficking when Norwin Meneses, then a big-time drug dealer with political connections in Nicaragua, had asked Blandon if he wanted to make money for the Contras. Blandon had worked for Meneses initially, selling 5-10 kilos at a time. Blandon said he had assumed that the money was going to the Contras, but he had no direct knowledge, and did not know what if any involvement Meneses had with the Contras. Blandon and Meneses had become partners, until Blandon cut Meneses out and dealt directly with Aparicio Moreno, a Colombian drug dealer and supplier. By the time Blandon was dealing with Ricky Ross, Blandon stated that none of the money he was making from narcotics sales was going to the Contras.

O'Neale did not recall Blandon's ever mentioning Contra leader Adolfo Calero. O'Neale also related that, when he questioned Blandon about informant reports that Blandon had given Eden Pastora \$6,000 and let Pastora stay in Blandon's house in Costa Rica, Blandon said that he "just gave" Pastora the money and had not explained to Pastora that it was drug money. Gustafson recalled Blandon's saying that Pastora had not known the money sent to the Contras came from selling drugs.

When interviewed by the OIG, Jones stated that Blandon had never mentioned having any CIA contacts, and had never claimed any knowledge of CIA involvement with the Contras. Jones stated that he never discussed the CIA/Contra issue in detail with Blandon because he was interested only in obtaining narcotics information.

When interviewed by a probation officer in connection with the preparation of his pre-sentence report, Blandon avowed that "all of his problems stemmed from the Nicaraguan Contra Revolution in 1980" because he "lost everything" and was forced to flee. He said that, while he was working to establish

himself in the United States, his family and friends were suffering under the tyranny of the Sandinista regime in Nicaragua. Bandon had decided to assist his countrymen, and believed that the only way to reestablish democracy in Nicaragua was through resistance, money, and political intervention. Because he did not have enough money to "make a difference," he had become committed to "raising money for humanitarian and political reasons via illegal activity." Based on the evidence reviewed by the OIG of Bandon's extensive drug trafficking activities and the evidence of Bandon's relatively minor aid to the Contras, discussed more fully in Chapter IV, the OIG finds that Bandon overstated his commitment to the Contras when interviewed by Probation.

## **10. The Written Plea Agreement**

Bandon eventually entered into a plea agreement with the government, which was filed with the district court on October 13, 1992. In it, he agreed to plead guilty to Count 1 of the indictment charging him with conspiracy to possess cocaine with the intent to distribute it, in violation of Title 21, United States Code, Sections 846 and 841(a)(1). Because of the quantities of drugs alleged to have been involved in the conspiracy, this count carried a maximum penalty of life imprisonment, a fine of \$4 million, and a period of five years supervised release after any period of incarceration. Bandon was advised that, based on the amount of cocaine discussed by him in recorded conversations, he was subject to a minimum mandatory sentence of ten years. But the agreement also made clear that Bandon could receive a sentence below the presumptive sentencing guidelines level, which was life imprisonment, and even below the statutory mandatory minimum if he continued to cooperate:

In exchange for that promised cooperation, and for cooperation already provided by the defendant, the United States will, prior to imposition of sentence, move the Court pursuant to guideline §5K1.1 to depart downward from the range specified in the sentencing guidelines, and will recommend to the Court that it sentence the defendant to no more than the ten years believed to be the minimum mandatory sentence. Should further cooperation by the defendant warrant such a recommendation, the United States retains the option of recommending that the Court depart below the ten year minimum mandatory sentence. Any recommendation of a further departure below the ten year recommendation already agreed to is in the sole discretion of the United States.

Bandon was advised that the court was not bound by the recommendation of the government, and he agreed to waive appeal of his conviction and of the sentence if the court departed downward "to a degree equal to or greater than" that recommended by the government. The agreement made no mention of Bandon's immigration status or of the possibility of Bandon's remaining in the United States.

## **11. Bandon's Sentencing**

Had Bandon not cooperated, his sentence would likely have been harsh. The statutory penalty range for trafficking in over five kilograms of cocaine went from a mandatory minimum of ten years up to life imprisonment. But based on investigative reports indicating that he had trafficked in over 2000

kilograms of cocaine during the course of the conspiracy, the Probation Department calculated Bandon's presumptive sentence under the Sentencing Guidelines as life imprisonment. Bandon contested this figure, claiming that this figure was based on one conversation in which he had been exaggerating. The dispute did not have to be resolved, however, because the sentencing court adopted the government's sentencing recommendation. It is clear, however, that O'Neale considered Bandon to be a large-scale trafficker and the case against him to be a significant one.<sup>(24)</sup>

Assistant U.S. Attorney O'Neale told the OIG that his first inclination was to seek a sentence of ten years for Bandon -- the statutory mandatory minimum. However, as Bandon continued to cooperate, O'Neale decided to make a motion that would allow the sentencing judge to depart below even the statutory mandatory minimum. Such motions by the government, based on a defendant's "substantial assistance," are explicitly authorized by 18 U.S.C. § 3553(e). O'Neale therefore requested, on December 20, 1993, that Bandon be sentenced to 48 months, to be followed by five years supervised release.

When interviewed, O'Neale made clear that, so far as he was concerned, the Bandon case was a normal prosecution of a substantial narcotics trafficker who had spent substantial time in the business. No one from any intelligence agency ever contacted O'Neale about his case, and no one from within the government, in San Diego or elsewhere, ever pressured him in any way concerning the conduct of the case. O'Neale said he had never heard of any deals being made by the federal government with a drug dealer because the person was a Contra or Contra-supporter and said he did not know why anyone would make such a deal.

For O'Neale and everyone else responsible for the case, the extreme degree of leniency sought for Bandon, according to them, was based solely on Bandon's value as an informant. When interviewed by the OIG, DEA Special Agent Jones recalled that although DEA agents regularly tested Bandon to see if he would lie to them, he never did. According to Jones, Bandon treated his cooperation as his "full time job" and was a "dream informant." Jones opined that if the controversy generated by the Mercury News stories had not arisen, Bandon would have been able to aid in the prosecution of many more drug traffickers. He described Bandon as a "tremendous asset," and said that he believed his sentence was very fair given his level of cooperation. Gustafson stated that Bandon is the best informant she has ever worked with -- very loyal to the government, hard-working, reliable, and personally abstaining from using drugs. She continues to be in almost daily contact with him. She believed his sentence to be appropriate.

Bandon's attorney, Bradley Brunon, told OIG investigators that Bandon had received a downward departure in his case because of the very specific and extensive cooperation he had provided to DEA. He recalled that Assistant U.S. Attorney O'Neale was originally resistant to having Bandon cooperate at all, suggesting that Bandon did not have much to contribute. Brunon stated that O'Neale's attitude changed once Brunon talked O'Neale into giving Bandon a chance. Over the period of cooperation, O'Neale and DEA agent Jones told Brunon that they were very pleased with Bandon's cooperation, and Brunon thought that Bandon won their trust over time. Neither DEA, INS, Customs, or the U.S. Attorney's Office had ever mentioned any intervention by their superiors or any other agencies on behalf of Bandon. Brunon noted that, in his experience, the downward departure Bandon received was well

within the norm in the Southern District of California. Brunon added that Blandon's co-conspirators and the informants against him had all received shorter sentences than Blandon did. (The sentences for the other defendants are described below.)

O'Neale told the OIG that he had cleared all his motions for leniency for Blandon with his supervisor in the U.S. Attorney's Office, Edward Allard, then the Chief of the Narcotics and Dangerous Drug Section. When interviewed by the OIG, Allard had no independent recollection of the Blandon case, but said he was willing to defer to O'Neale's recollections concerning the prosecution of Blandon. Allard recalled that O'Neale was a very experienced prosecutor, and that although O'Neale often came to him to discuss his cases, Allard was comfortable with O'Neale's making his own decisions in most matters. Allard noted that, before March 14, 1994, the U.S. Attorney's Office had no formal approval process for downward departure motions; thereafter, a section head's approval was required. When Allard reviewed requests for downward departures, he generally looked at whether the Assistant U.S. Attorney requesting it was afraid to go to trial and was just "selling out the case," at the amount of cooperation given, and at whether the case agent also supported the request. Allard stated that neither O'Neale nor the case agent, Jones, was the type to "sell cases out." According to Allard, both are very aggressive and experienced. Allard also said that the extent of the downward departure recommended for Blandon did not seem out of the ordinary, given his cooperation.

Consistent with the U.S. Attorney's Office's request, District Judge Rudi M. Brewster sentenced Blandon, on December 20, 1993, to a term of 48 months in prison, to be followed by five years of supervised release. The court also found that Blandon did not have the ability to pay a fine, but ordered him to pay a \$50 special assessment. O'Neale told the OIG that the OCDETF task force actively searched for Blandon's assets but were unable to identify any seizable assets. O'Neale stated that his investigation showed that all of Blandon's liquid assets had been lost in his failed rental car business in Miami, as discussed above.

## **12. The Rule 35 Motion**

On September 16, 1994, Assistant U.S. Attorney O'Neale filed a motion under Federal Rule of Criminal Procedure 35(b), asking the court to reduce Blandon's sentence based on changed circumstances. Rule 35(b) allows the government to move the court within one year after the imposition of sentence for a reduction in the defendant's sentence to reflect a defendant's subsequent, substantial assistance in the investigation of another person who has committed an offense. Assistant U.S. Attorney O'Neale requested that the court further reduce Blandon's sentence to 28 and ½ months and eliminate the requirement of supervised release. This request would result in the reduction of Blandon's sentence to time served as of September 19, 1994, allowing his immediate release.

In an affidavit attached to the motion, O'Neale outlined the extent of Blandon's aid to authorities in the Northern District of California since his sentencing. The affidavit related: "I was told that Mr. Blandon had testified before the Grand Jury, and had actively cooperated in the investigation of a significant well-established drug trafficking organization, that had been the target of unsuccessful investigative attempts

for many years." The affidavit stated that it was the consensus of investigators and prosecutors who had worked with Bandon that he had been "extraordinarily helpful" and that the potential for his further assistance once he was released from prison was "even greater." O'Neale also noted the opinions of DEA agent Jones and INS agent Robert Tellez:

Each of these investigators is, in my opinion, a person with extensive experience and mature good judgment. Each of these investigators believes that Mr. Bandon has almost unlimited potential to assist the United States in the investigation of major drug trafficking organizations. Their desire, with which I concur, is to enlist Mr. Bandon as a full-time, paid, informant after his release from prison.

Also attached to the motion was a memorandum by Jones, dated August 12, 1994, outlining Bandon's cooperation since the time of his sentencing. Among a list of significant violators and other information provided by Bandon was Ricky Ross, about whom the memorandum noted:

Mr. Bandon remains in contact with Ricky ROSS and his associates in the Los Angeles area. ROSS and associates are responsible for the distribution of major quantities of rock cocaine in the Southern California area. It is anticipated that Mr. Bandon will be able to reestablished [sic] himself with Ricky ROSS and his organization if released from custody.

In fact, with Bandon's cooperation, the DEA later developed a case against Ross, resulting in the sale of cocaine to Ross and an accomplice by an undercover agent in San Diego in March 1995. After a jury trial in which he was convicted of conspiracy to possess cocaine with the intent to distribute it, Ross received a life sentence in prison. We describe this case in detail in the chapter of the report on Ross.

When interviewed by the OIG, O'Neale told of his confidence in Jones' assessments of cases. O'Neale recalled having been a bit apprehensive about recommending a further reduced sentence because he was unsure whether Bandon would continue to cooperate after his release from prison. He remembered telling Bandon that, if he returned to drug dealing, he would dedicate his career to reprosecuting Bandon. O'Neale reported, however, that Bandon did continue to cooperate after he was released and has been very productive. O'Neale emphasized Bandon's value, stating: "This is a guy who can call the Cali Cartel."

On September 19, 1994, Judge Brewster entered a Modified Judgment and Commitment Order which stated "time served[,] supervised release is waived." This effectively reduced Bandon's sentence to 28 and ½ months. Bandon was released shortly thereafter.

### **13. Disposition of Charges Against Bandon's Co-Defendants**

In 1994, the government dismissed the charges against Bandon's wife, Chepita. In an undated internal memorandum entitled "Memo to File - Dispositions," O'Neale explain the basis for this move:

Her case was dismissed. The only evidence against her was uncorroborated [confidential informant] testimony, and fairly vague at that. After Danilo pled guilty, we were faced with going forward against her alone. Danilo would probably have asserted her innocence, which would have impaired his ability to cooperate, we would have had to expose the [informants], and would have had little if any chance of success. As a stand-alone case, it was not readily provable. (Even though there was [sic] no drugs with Danilo, we had numerous recordings of him negotiating drug deals, discussing other drug deals, reminiscing about old drug deals, and giving drug dealing advice. Chepita was not recorded, and we had no direct transactions specifically linked to her.) After extensive discussion with Ed Allard, Deputy Chief, I determined to dismiss the case.

There is no evidence to support any claim that the charges were dismissed against Chepita Blandon because of any affiliation with the Contras or the CIA. We found the explanation given in O'Neale's report to be reasonable, and we found no evidence that the dismissal was done for any improper purpose.

As noted by Blandon's attorney, the other defendants in his case received lesser sentences than him. Sergio Guerra pled guilty to a felony money laundering count. In an internal memorandum, O'Neale noted that Guerra had no direct link to drug trafficking. Guerra was sentenced to 30 months in prison. Raul Vega pled guilty to a felony money laundering count and agreed to cooperate with the government. He was sentenced to 18 months in prison. Armando Reyes also pled guilty to a felony money laundering count and agreed to cooperate. O'Neale noted that the FBI had told him that Reyes would be instrumental in a major cocaine case in the Northern District of California. Reyes was eventually sentenced to probation.

#### **14. OIG Conclusions on the Allegation that Blandon Received Special Treatment Because of Alleged Ties to the CIA and the Contras**

There is no doubt that Blandon obtained a considerable degree of leniency at the behest of the government. In his cooperation agreement, the government agreed to recommend a sentence of only ten years, even though the Federal Sentencing Guidelines would have mandated a far higher sentence -- life imprisonment -- based on the quantity of cocaine Blandon had trafficked in. This agreement, however, was not binding on the sentencing judge. And, when it came time for Blandon to be sentenced, the government filed a motion that allowed the court to give Blandon even less than the ten-year minimum. Thereafter, the government's Rule 35 motion allowed this admitted major cocaine trafficker to leave prison immediately, having served a few months over two years.

The question, however, is not whether Blandon obtained favorable treatment. Cooperators have long received considerable sentence reductions, and the extent of these reductions have become even more significant in the era of mandatory minimums and the Federal Sentencing Guidelines. Frequently, particularly in the narcotics area, the more substantial the drug dealer, the better his contacts among high-level traffickers -- and therefore, the more able he is to assist in making cases that impress agents and prosecutors and thus lead to substantial sentence reductions. The question here is whether the benefits



that Blandon received were in return for his cooperation or because of affiliation with the Contras or the CIA. The OIG has found no evidence whatsoever that the government's efforts to ensure a lower sentence for Blandon were based on anything other than its assessment of his cooperation. There is no evidence of any intervention by the CIA or any intelligence agency. Nor is there any evidence that Blandon received special consideration because of any affiliation with the Contras. While some undoubtedly would argue that the government should give more consideration to the extent of a defendant's prior criminal activity before cutting such a favorable deal, others could equally point out that the case against Blandon was not the strongest, and that the extraordinary leniency he received was commensurate with the extraordinary assistance he gave to the government. We will not resolve this debate, except to note that it extends far beyond the context of this case, is frequently and passionately debated among participants in the federal criminal justice system, and has little to do with the allegations this report addresses.

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24. The Mercury News stated that O'Neale had described Blandon to a grand jury as "the biggest Nicaraguan cocaine dealer in the United States." The OIG did not have access to grand jury records during this investigation, as this is not a criminal matter. The OIG is not aware of how Webb could have obtained the comments of a prosecutor before a grand jury, the release of which are made only under very rare circumstances, by court order.

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## **L. Blandon's Improper Receipt of a Green Card**

The sentencing discounts given to Blandon were authorized by law. The same cannot be said, however, about the decision to give Blandon legal permanent residence status (LPR status), also known as a "green card." His felony drug conviction made him ineligible for such status. As detailed in this section, we determined that Blandon did indeed receive his LPR status improperly, as a result of INS agent Tellez's intervention in the matter. We did not find, however, any evidence that Blandon's receipt of this benefit had anything to do with his alleged affiliation with the Contras or the CIA.

### **1. Background**

Obtaining LPR status is a significant benefit because, after holding this status for five years, an alien can apply to become a United States citizen. But under normal circumstances in October 1994, an alien with an "aggravated felony conviction" was not eligible to receive LPR status. An aggravated felony, defined in the Immigration and Naturalization Act (INA), includes illicit trafficking in a controlled substance. 8 U.S.C. § 1101(a)(43)(B). The offense pled to by Blandon in 1992, conspiracy to possess cocaine with the intent to distribute it, clearly fell within this definition. Ordinarily, an alien convicted of an aggravated felony should be deported, and cannot reenter the United States for twenty years. 8 C.F.R. § 212.2.

The fact that Blandon was cooperating extensively with law enforcement could have led the government to delay his deportation but did not make him eligible for LPR status. Nevertheless, in October 1994, INS agent Tellez arranged for Blandon to be given LPR status.<sup>(25)</sup> After reading a newspaper article on August 29, 1996, alleging that Blandon was involved in the sale of cocaine to fund the Contras, INS Supervisory Special Agent (SSA) Robert Butler, in the San Diego INS District Office, Investigations Branch, reviewed Blandon's alien file. Thereafter, Butler filed a complaint with the San Diego office of the OIG against SA Tellez, because Butler believed that Tellez had knowingly allowed Blandon to obtain LPR status improperly. On December 12, 1996, the INS moved to rescind Blandon's LPR status. That action is now pending.

### **2. Blandon Obtains his Green Card**

As discussed above, Blandon received his status as a political asylee in August 1985. He applied for LPR status on September 26, 1988, at the Miami office of the INS. In his application he acknowledged his 1986 arrest by the LASD, stating that no complaint had been filed. He answered in the negative the questions regarding whether he had been an "illicit trafficker in narcotic drugs." This application was pending at the time of his arrest.

When interviewed by the OIG, Tellez and the DEA agents who worked with Blandon explained how the problem concerning LPR status arose.<sup>(26)</sup> According to a letter written by Assistant U.S. Attorney O'Neale, while Blandon was cooperating with the DEA, the government decided not to proceed with

deportation proceedings against him. But his legal status needed to be addressed if his undercover work was to take him abroad. Bandon did not need INS travel documents to travel out of the United States -- he could have traveled on his Nicaraguan passport -- but he would have needed some kind of authorization to return, unless agents were present to arrange for his entry, which would not be practical if he were acting in an undercover capacity.

The routine travel document that Bandon had used prior to his arrest, issued by the INS on January 25, 1991, had expired on January 25, 1993. In 1994, after Bandon began cooperating with the government, INS agent Tellez was asked by DEA and Assistant U.S. Attorney O'Neale to obtain new documents for Bandon. Tellez was the INS liaison on the OCDETF committee in San Diego. There is no evidence that Tellez was specifically asked by anyone to obtain LPR status for Bandon; he was asked only to ensure that Bandon could travel in and out of the United States while involved in undercover work for the DEA.

Tellez could have properly accomplished the task he was given in any of four ways, each of which would have allowed Bandon to stay in the United States only so long as he cooperated. None of these procedures would have given Bandon LPR status. The first would have been to arrange for the INS to issue an Order to Show Cause (OSC) for his deportation based on Bandon's aggravated felony conviction, but hold it in abeyance on the basis of a request from the U.S. Attorney's Office. Bandon would then have remained a political asylee and the INS could have issued him a new travel document. He would have been deported after his usefulness as an informant had ended. Second, with the approval of the INS Assistant District Director for Investigations, the INS could have elected not to issue an OSC until after his cooperation was completed. In this case, Bandon would have remained a political asylee and could obtain new travel documents but would remain subject to deportation at the end of his cooperation with the DEA. The third way would have been to deport Bandon, but then have DEA Headquarters request that he be paroled back in for the period of his cooperation with law enforcement. At the end of the parole period, INS could either request an extension or seek Bandon's deportation. Fourth, the INS could issue an OSC and obtain an order for deportation from an immigration judge, but then stay the order. Had this method been used, however, Bandon would have had to be paroled back into the United States if he traveled abroad.

Tellez did not use any of these methods. When interviewed by the OIG, Tellez said that, in September 1994, he had taken Bandon to meet with INS Immigration Examiner Loren Montgomery, in San Diego. According to Tellez, he told Montgomery that Bandon was a convicted drug dealer cooperating with OCDETF investigations and that Bandon needed travel documents to continue his undercover work. Even though Tellez conceded to us that Bandon had never told him of any involvement with the CIA or the Contras, Tellez told Montgomery that Bandon's family had been ousted by the Sandinistas and that Bandon knew people who had contacts with the CIA and the Contras. Tellez explained to the OIG that he said this to impress Montgomery into expediting Bandon's application. As discussed above, Tellez had heard rumors that Bandon was involved with the CIA and had been present when Bandon was debriefed by the DEA and outlined his participation with the Contras.

Tellez also maintained that he reported to Montgomery that Bandon was a convicted felon, and that

Montgomery had explained to Tellez that Blandon was still eligible for LPR status because Blandon had received the visa number required for LPR status prior to his conviction. Tellez said that he had asked Montgomery to expedite Blandon's application because Blandon needed to travel out of the country. Montgomery placed a call to the INS office in Arlington, Texas to put a rush on Blandon's LPR application. But about six to eight weeks later, Montgomery told Tellez that the application had been lost. In March 1995, Tellez brought Blandon to see Montgomery again, and Montgomery resubmitted the paperwork via facsimile.

Montgomery gave a very different account to the OIG. He stated that Tellez had not informed him that Blandon had been convicted of drug trafficking. Tellez told him only that Blandon was an informant for the OCDETF and needed travel documents. Montgomery said he was not aware that Blandon was incarcerated in the Metropolitan Correctional Center (MCC) in San Diego or in any jail. Montgomery thereafter approved Blandon's application for LPR status because it appeared that the requirements had been met: Montgomery had called the INS Headquarters (HQ) in Washington, D.C., and, upon being referred to the Asylum Office in Florida, he had learned that Blandon's name was in the Asylee Adjustment Report, indicating that he was eligible for LPR status, and that Blandon had been assigned a visa number.<sup>(27)</sup> Montgomery verified that the one-year waiting period had passed and that a visa number was available.

Tellez also told the OIG that, before he ever brought Blandon to see Montgomery, he had advised Montgomery's supervisor, Jerry Klos, Assistant District Director for Examinations in the INS San Diego District Office, that Blandon was a convicted felon cooperating with the OCDETF who needed travel documents. Tellez related that Klos had called an INS office in Washington, D.C., to determine whether Blandon was on the list for visa availability, and had been informed that Blandon was on the list of asylees who had previously been granted visas.

Klos gave a very different account to OIG investigators. He said that Tellez not only failed to mention that Blandon was a convicted felon; he never even discussed Blandon with Klos. Had he known that Blandon was a convicted felon, Klos would not have allowed Blandon's application for adjustment to LPR to be approved. Klos recalled that Tellez had contacted him about obtaining a green card or LPR status for "someone," and had left Klos with the impression that "someone" was an OCDETF informant who was eligible to get his green card but had not received it. Klos had referred Tellez to Montgomery, and only later did he realize that the unidentified informant was Blandon.

Without notification from Tellez (or Blandon), neither Montgomery nor Klos would likely have learned on his own that Blandon was a convicted felon. The paperwork that Tellez presented in connection with Blandon's application (which OIG has reviewed) did not mention that fact. Montgomery said he relied on the application for LPR status that was already in Blandon's INS Alien file. Because Blandon had filled out this application on September 26, 1988, prior to his conviction on drug trafficking charges, it contained no mention of the conviction. Nor did anything else in Blandon's alien file contain any reference to his conviction. According to SSA Butler, Tellez had custody of Blandon's alien file between April 1991 and August 1996, and had failed to place important documents (arrest report, Judgment and

Commitment Order, plea agreement, and sentencing report) in it. It is INS policy and practice that a certified copy of a Judgment and Commitment Order should be placed in the alien file because the order directly affects an alien's ability to obtain certain benefits from the INS, such as an adjustment of status and naturalization.

Tellez told OIG investigators that he had placed the Judgment and Commitment Order in his working file, but not in the Blandon alien file, which was the file given to Montgomery. Tellez explained that he had handled Blandon's case differently from his normal practice because Blandon had served his entire sentence in a local facility, instead of being transferred to a federal correctional institution (FCI). Tellez stated that, if Blandon had been transferred to an FCI, his alien file would have gone with him and Tellez would have updated it before transferring the file. Tellez said he maintained all the information on Blandon in his work file, and never had cause to update the alien file because no request was ever made for it. Tellez admitted that only the alien file was given to Montgomery for review.

The only document in the Alien file that might have alerted Montgomery to Blandon's conviction was the INS detainer that was in the file. While the detainer indicated only that Blandon had been arrested, it might have cued Montgomery to ask Blandon about his criminal record. Montgomery stated that he did not recall seeing an INS detainer on Blandon or any document indicating that Blandon was a convicted felon, but that he did not go through the file page by page. When retrieved by the OIG, Blandon's Alien file was in disarray, and it may well have been in the same condition in 1994. Montgomery said there was a possibility that he might have overlooked such a document but noted that he would have expected Tellez to advise him of Blandon's criminal status.

Tellez also told the OIG that he had alerted his supervisors John Hughes, Jack Feemster, and Arnoldo Flores that he was seeking LPR status for Blandon, and that they knew that Blandon was a convicted felon. Jack Feemster, now retired, refused to be interviewed by the OIG. John Hughes told the OIG that Tellez never briefed him regarding this matter. Hughes believed that Tellez had acted improperly, disregarding proper procedures, because Tellez was under pressure from the DEA to get travel documents for Blandon. Hughes added that Tellez was an experienced agent, but must have been lazy and had taken a short cut in this matter. Arnoldo Flores, now retired, told the OIG that, when told by Tellez that Assistant U.S. Attorney O'Neale wanted Blandon to go abroad to participate in undercover investigations, Flores had told Tellez to "handle it in the appropriate manner." Flores could not recall if Tellez had informed him of Montgomery's assistance in processing Blandon's application for LPR status. Flores stated that he did not learn that Blandon had obtained LPR status until after Flores had retired. Flores, too, noted that Tellez had been under a tremendous amount of pressure to get travel documents for Blandon, and suggested that Tellez had just tried to appease the U.S. Attorney's Office.

Reports of investigation written by Tellez to apprise his supervisors of his work in the Blandon case did not include any information regarding his efforts to gain LPR status for Blandon. In fact, the one report that mentions Blandon's immigration status is incorrect and misleading. In report number 19, dated March 21, 1994, Tellez wrote on the Form G-166, in paragraph number 3, "Blandon then submitted a request for political asylum because fear [sic] of persecution in his native country. His status for permanent resident was granted on June 5, 1990...." This statement is inaccurate. Blandon's Alien file

simply indicates that on June 5, 1990, the INS in Miami had scheduled an interview for Blandon for September 12, 1990, in connection with an unidentified application he had submitted. When asked about this report by the OIG, Tellez acknowledged that the statement was incorrect, and suggested that the June 5, 1990, date was probably the date Blandon was eligible to change to LPR status. There is nothing in the Alien file to indicate that Blandon was eligible to change to LPR status on June 5, 1990. In fact, one document shows that the earliest Blandon was eligible was June 1, 1993 -- after his federal conviction. Tellez said that he probably got the June 5, 1990, date from a list with the visa numbers that Klos or Montgomery had shown him. No such list was found in any of Tellez's files or in Blandon's alien file.

Tellez told the OIG that he had decided not to have Blandon deported and then paroled back into the United States because this approach would have limited Blandon's use as a informant. He explained that an immigration judge can put restrictions on what a parolee could do. But, in his interview with the OIG, Tellez could not specifically name any potential restrictions that would have posed a problem. Tellez also noted that this approach would have required a lot of paperwork, including a letter to the immigration judge explaining the extent of Blandon's cooperation with OCDETF, and that there was no guarantee that the immigration judge would grant Blandon a travel document. But contrary to Tellez's claim, the INS grants requests for parole and provides travel documents administratively. No immigration judge is involved in parole cases.

Tellez also explained that had Blandon been deported and paroled back into the United States, his papers would show that he was a parolee and would therefore raise suspicion that Blandon was a government informant. This, too, is an implausible explanation. The travel document provided to Blandon would have been the same as for a political asylee and some other classifications of nonresident aliens, which would not have suggested in any way that he was an informant.

When interviewed by the OIG, Danilo Blandon recalled that, after he was released from the MCC, Tellez had brought him to see examiner Montgomery to obtain travel documents so that Blandon could go to Nicaragua to work on undercover drug deals. Blandon stated that Montgomery had been aware that he was working as an informant, and that he had been incarcerated in the MCC; he recalled that Montgomery's window had looked out onto the jail, and he had told Montgomery that he had lived over there for a while. However, Blandon did not recall specifically informing Montgomery of his recent drug conviction. Montgomery told the OIG that he did not recall any conversation about Blandon being in jail.

Guadalupe Ochoa, an INS Special Agent in San Diego who worked with Tellez on OCDETF, was also interviewed by the OIG. Ochoa recalled Tellez's asking him the procedure for lifting a detainer on "someone." Ochoa said that he advised Tellez of three options for removing the detainer. These were: (1) to deport the person and then parole them back into the country; (2) to proceed with deportation but hold the process in abeyance pending the completion of cooperation with law enforcement; or (3) to write a letter to the INS District Director with concurrence from the agent's first and second line supervisors requesting that the detainer be lifted. Ochoa related that Tellez had told him that these three options required too much paperwork. Ochoa also advised that he had overheard a telephone conversation in which Tellez had inquired about getting a green card for Blandon. When interviewed by

the OIG, Tellez admitted that he had spoken with Ochoa about how to get travel documents for Bandon, but Tellez could not recall what Ochoa had told him.

DEA agents Jones and Gustafson, and Assistant U.S. Attorney O'Neale, told the OIG that no promises had been made to Bandon regarding his immigration status during plea negotiations or during his cooperation. All three stated that INS agent Tellez handled all INS matters that came up in the OCDETF investigation. However, because Tellez apparently incorrectly reported that Bandon had received his LPR status prior to his arrest, O'Neale gave defense counsel incorrect information during the prosecution of Ricky Ross about Bandon's status. In a letter to defense counsel dated February 15, 1996, O'Neale noted that "the United States has not gone forward with deportation proceedings against Mr. Bandon, and he therefore retains the permanent resident status that he had before his May 1992 arrest."

DEA agent Jones was not aware that Bandon had not received permanent resident status until October 1994, nor was he aware of Bandon's receiving a travel document. Jones noted that he had never heard of Montgomery, and had not been involved with paroling anyone into the United States for several years.

### **3. Tellez's Motivations in Securing Bandon's Green Card**

Based upon our investigation, we concluded that Tellez knew or should have known that Bandon was not eligible for his LPR status, and that Tellez deliberately withheld the fact of Bandon's conviction from the immigration examiner in order to obtain LPR status for Bandon. We believe that Tellez did so because this seemed to be the easiest way to get travel documents for Bandon quickly. There is no evidence that Tellez acted as he did because of any bribe or direction from an outside agency.

Specifically, we found that Tellez did not inform Immigration Examiner Montgomery of Bandon's aggravated felony conviction. Both Montgomery and Klos, who denied that Tellez had informed them of that fact, were credible witnesses. Moreover, Tellez did not put the proper paperwork in the Alien file that would have alerted Montgomery to the conviction, and his explanations for why this information was missing from the file are not credible. We concluded that Tellez did not inform supervisors Hughes or Flores of the fact that he was seeking LPR status for Bandon. The paperwork submitted to them indicates that Bandon already had LPR status, and the file gives no indication of Tellez's dealings with Montgomery. Whether he told his immediate supervisor, Jack Feemster, cannot be determined, because Feemster would not submit to an OIG interview.

Finally, we believe that Tellez acted out of laziness, not any corrupt intent. We found no evidence of any undue influence by any government agency or any bribery by Bandon in this matter. Charged by the other members of the OCDETF group to take care of an immigration problem, Tellez cut corners, in order to give his colleagues a quick result with a minimum of effort on his own part.

### **M. The Receipt of Green Cards by Bandon's Wife and Daughter**

Allegations have also been made that Bandon's wife and daughter improperly and illegally received

LPR status. This allegation is without merit. Blandon's wife Chepita and his daughter received LPR status in November 1992. Both applied for LPR status after meeting INS eligibility requirements for further adjustment of status, and it was granted. Because they did not have any criminal convictions, there was nothing improper in the granting of this LPR status.

## **N. DEA Payments to Blandon**

The allegation has been made that Blandon has been paid in excess of \$166,000 by the DEA since his release from prison. This is true.

Since his release from prison, Blandon has worked as a paid informant for the DEA. Assistant U.S. Attorney O'Neale has noted that Blandon's efforts have been "at or above" O'Neale's expectations, and that Blandon has been even more productive since his release from prison than when he was incarcerated. According to O'Neale, Blandon's assistance has already resulted in the seizure of a ship off of Nicaragua and in the arrest of a drug kingpin in Costa Rica.

Between November 29, 1994, and October 17, 1996, Blandon received 41 payments in varying amounts from the DEA. Some of the payments were as small as \$300. Most averaged around \$2000 or \$3000. There were three large payments. Blandon was given an \$80,000 award for his help in a sensitive case outside of the United States that resulted in a large seizure of cocaine and the vessels that transported it. Blandon received a \$40,000 award for the Ricky Ross case and a \$5,000 award for another investigation outside of the United States.

O'Neale noted that a colleague had also been working with Blandon on another sensitive large-scale investigation when the San Jose Mercury News story came out. O'Neale is unsure of the extent to which that investigation has been harmed by the publicity.

Jones stated to the OIG that whatever Blandon received as a reward was not nearly enough for the valuable information he provided. Jones also said that some of the money paid to Blandon was reimbursement for his expenses. Blandon traveled throughout South America, Mexico, and Nicaragua and paid for his own airline, hotel, and food bills. Blandon did not furnish any receipts, but was paid in lump sums estimated to reimburse his expenses.

The practice of paying sums of money to informants who provide information and other assistance will always be a controversial practice. It is even more controversial when such payments are made to people with criminal records and when the payments are substantial. Within this overall context, our conclusion is that the payments to Blandon were consistent with existing agency practices, and the amounts paid were based on agency assessments of the value of Blandon's information.

25. At Ricky Ross' trial in March 1996, Blandon testified that he had been first issued a green card in 1992, before SA Tellez took him to be processed for LPR status in 1994. He stated that he had been called to come to the INS office to pick up a green card in 1992, but that he had been arrested before he



got it. In fact, Blandon was correct that he was told in 1992 that his green card was available on the day that he was arrested, but the notice to pick up the card was only a ruse used to effect Blandon's arrest. No such card was actually issued until Blandon obtained LPR status in October 1994.

26. Agent Tellez refused to agree to a voluntary interview by OIG investigators absent immunity from criminal prosecution. The OIG therefore referred the Tellez matter to the Public Integrity Section of the Department of Justice Criminal Division, which stated that the case was, in its judgment, not prosecutable as a criminal matter and gave the OIG permission to compel Tellez to submit to an interview by the OIG. Tellez was compelled and was told, as is standard practice in a compelled interview of a DOJ employee, that nothing he said in the interview could be used against him in a criminal proceeding.

27. After a political asylee applies for LPR status, the asylee is placed on a waiting list for visa availability. Every quarter, a list is published of asylees who have been granted visas, including the visa number. The cover sheet on this list states that it is permissible to complete the asylee's adjudication to LPR status.

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## Chapter III: Norwin Meneses

### A. Introduction

Norwin Meneses conducted large-scale drug trafficking in Nicaragua and the United States for many years. He was the subject of various criminal investigations in Nicaragua, before and after the overthrow of the Somoza regime in 1979, and also in the United States. Within the United States, the DEA began the first federal investigations of him in the early 1980s, which resulted in the prosecution of several of his family members and associates, but not him. As we discussed extensively in the previous section, starting in 1986 Meneses was used as an informant by the Costa Rica DEA office at the same time other DEA and FBI offices were still investigating him for drug trafficking in the United States.

In 1989, a grand jury in San Francisco indicted Meneses in a case based on his drug trafficking activities in 1984 and 1985. No cocaine was seized and the case relied on the testimony of cooperating witnesses. The indictment was sealed, and a warrant was issued for his arrest. Because he was no longer living in the United States, he was never arrested on this warrant. In 1991, however, Nicaraguan authorities arrested him in Managua and charged him with attempting to transport over 760 kilograms of cocaine to the United States. He was convicted on this charge and began serving a 25-year sentence in a Nicaraguan prison. The U.S. Embassy in Nicaragua has informed the OIG that Meneses was released from prison on November 14, 1997.

It has been suggested that Meneses was not prosecuted in the United States because of the influence of the CIA. The San Jose Mercury News articles reported that Meneses "never spent a day in a U.S. prison," despite the fact that he lived openly in San Francisco for many years and that the United States government was aware of his cocaine dealings for a long time. The articles claimed that investigations of Meneses "were stymied not by the elusive Meneses but by agencies of the U.S. government," suggesting the influence of the CIA or unnamed "national security" interests. The articles stated, for example, that in 1981 a San Francisco DEA agent named Sandra Smith investigated Meneses and "inadvertently uncovered the first direct link between cocaine and the secret army the Central Intelligence Agency was assembling to overthrow the government of Nicaragua," and that Smith's investigation was allegedly halted for reasons that were "not clear." The articles also claimed that the 1989 indictment of Meneses was "quickly locked away in the vaults of the San Francisco courthouse," inexplicably kept secret for many years, and his arrest warrant was never entered into a national law enforcement database.

This section of the report examines the federal investigations of Meneses in light of these claims. It first discusses the information in federal files about Meneses' criminal activities in the late 70s, then the investigations of Meneses in the early 1980s, including Smith's investigations. We describe his use as an informant by the DEA in the 1980s, his indictment in San Francisco in 1989, and his subsequent arrest in Nicaragua. Based upon our review, we found that the federal investigations of Meneses failed for several reasons, most notably because of coordination problems between the various law enforcement offices involved and vacillation by these offices as to whether he should be considered an informant or a

target. But we found no interference with any investigation or prosecution of Meneses by the CIA or any other entity.

## **B. Background of Meneses**

Norwin Meneses was born in Nicaragua on June 21, 1943. He came from a prominent Nicaraguan family that had close political connections to the Somoza government. One brother was reported to be the chief of police in Managua in the 1970s, another brother was a Nicaraguan general, and an uncle was reportedly the highest official in the Nicaraguan Customs Service. Meneses was very wealthy and reportedly owned a mansion in Nicaragua, a farm north of Managua, and other properties that he used in his criminal activities. Meneses also moved back and forth between countries, living in the San Francisco area off and on beginning in the 1960s. He reportedly owned several properties in San Francisco as well.

From contemporaneous reports, source information, and our interviews of some of Meneses' associates, it is clear that Meneses ran large cocaine smuggling and drug trafficking operations, both in Nicaragua and the United States, beginning in the 1970s. Information in FBI and DEA files indicate that he began trafficking before 1979, when the Sandinistas took power, and he continued these activities after they took control of Nicaragua. In the early 1980s, he attended Contra meetings in San Francisco, and gave some contributions to the Contra cause, occasionally calling himself a "revolutionary" who was fighting to get his country back. However, based on our interviews and review of DOJ files, we did not find evidence that he contributed a significant amount of his profits to the Contras or was a significant backer of that cause. Rather, he appeared to have established contacts and dealt drugs with all sides in the Contra war -- including the Sandinista government. Several people familiar with him and his organization said "he lacked any political allegiance and would deal with anyone who would provide cocaine at the lowest price" or that he "played both sides." Other sources reported that Meneses' motivation was money and that any of his associations with the Contras or the Sandinistas were not politically motivated but were strictly for financial profit.

In April 1997, we interviewed Meneses in a Nicaraguan prison. That interview, conducted in the presence of his Nicaraguan attorney, did not shed much light on his activities. During the interview, Meneses said he gave small amounts of money to the Contras, but he also falsely denied ever being a drug dealer. He claimed that he was "set up" on the charges in Nicaragua, and he denied ever cooperating with any entity of the United States government.

Yet, despite his denials, information in DOJ files makes clear he was a long-time drug trafficker who later became a DEA informant. According to a DEA agent who handled Meneses as an informant and another informant who worked with Meneses, Meneses admitted to both that he was a drug trafficker. As of October 1996, the DEA's NADDIS database referred to Meneses 53 times, mostly in cases involving other people in which source information mentioned Meneses peripherally.<sup>(28)</sup> However, including the Los Angeles OCDETF case described in the previous chapter, the DEA had eight cases, beginning in 1981, in which Meneses was one of the main targets. In addition to these DEA cases,

during the mid-1980s the FBI targeted Meneses, and Meneses was ultimately indicted in 1989. At the time of his indictment, he was also an informant working with the DEA in Costa Rica.

We now describe the first cases in which Meneses was targeted by the federal authorities, along with the results of those investigations.

### **C. First reports on Meneses**

The first report concerning Meneses that we located in DOJ files was a 1968 foreign police cooperation request from the Nicaraguan authorities for information on Meneses. The Nicaraguans suspected that Meneses was involved in the murder of a "money changer" in Managua and that he had fled to San Francisco. Through the CIA, the Nicaraguans requested that the FBI provide police records from San Francisco relating to Meneses. When transmitting this request, the CIA stated that it had no information on Meneses. In response, the FBI collected Meneses' arrest and conviction records in San Francisco and forwarded them to Nicaragua. Meneses' San Francisco record included convictions for shoplifting in 1963, misuse of slot machines in 1964, and statutory rape of a female under 18 years old in 1964.

In 1976, the Inspector General of Customs in Managua, Nicaragua, reported to the FBI that Meneses was suspected of running a car theft operation in California and New York and transporting the stolen cars to Nicaragua. The FBI provided information on the stolen cars in question to the authorities in Managua. According to a later 1976 FBI report, Meneses was arrested in Nicaragua for these thefts but then released.

In 1979, the FBI Legal Attache (Legat) in Mexico City suggested that Meneses be considered for inclusion in the FBI "top thief" program because of his suspected car theft operation. The FBI Legat also suggested that an arrest warrant be issued for Meneses "if for no other reason than to preclude him from entering the United States," and that a "stop with the INS" be placed on Meneses so that he could be interviewed regarding his activities if he tried to come to the United States. But a memorandum from the Special Agent in Charge of the San Francisco FBI office stated that an Assistant U.S. Attorney there declined prosecution of Meneses for the car thefts and no arrest warrant could be obtained, and therefore an INS stop without an arrest warrant would be ineffective. The memorandum reported that although Meneses' whereabouts were then unknown, he had "sanctuary" in Nicaragua, where he had eluded prosecution because of his political connections. The memorandum said that further investigation in this case would not be productive and the matter was closed.

During this time, other information was reported to various DEA offices concerning Meneses' drug trafficking in Nicaragua. For example, in a 1976 DEA report from Costa Rica, a DEA special agent reported intelligence that Meneses was allegedly the source of supply for several persons smuggling cocaine from Managua to San Francisco. In 1978, the DEA received intelligence information that Meneses might be smuggling cocaine into the United States concealed in automobiles or on airlines. In 1980, the DEA investigated a drug trafficking network in New Orleans, and Meneses was said to be the Nicaraguan source of supply for the organization.

## D. DEA Investigations of Meneses, 1980-1986

Between 1980 and 1986, the DEA in San Francisco opened several investigations of Meneses and his associates. While some of Meneses' relatives and associates were convicted of drug trafficking as a result of these investigations, Meneses was not. This section describes those investigations, including one that the San Jose Mercury News claimed was inexplicably halted.

### 1. Smith's investigations

Sandra Smith, an agent in the DEA's San Francisco office from 1974 to 1984, told the OIG that she first heard about Meneses' drug trafficking organization in 1975. She said that she heard rumors that he was transporting guns to Nicaragua and importing drugs from there. In the late 1970s and early 1980s, she was assigned primarily to work on several major cases targeting the Hells Angels motorcycle gang in the San Francisco area. In one of those cases, she overheard a taped conversation in which Meneses discussed drug trafficking.

In 1980, Smith learned additional information about Meneses' organization. DEA intelligence sources reported that Meneses' organization based in the San Francisco Bay area was importing 10- to 20-kilogram shipments of high-quality cocaine from Colombia, via Meneses' Nicaragua-based organization. His nephews, Jaime and Roger Meneses, allegedly distributed the cocaine in California.

In July 1980, Smith opened her first case on the Meneses organization. In this case, she assisted on a state search warrant that the local police obtained and executed on Roger Meneses' house in San Francisco. During the search, 20 pounds of cocaine and \$8,800 were seized. The local police arrested Roger Meneses and charged him with state narcotics offenses. The charges were later dismissed because the search warrant had been based on an illegal traffic stop.

In September 1981, Smith opened a second case against the Meneses organization. In this case, Smith was contacted by police detectives in Baldwin Park, which is located near Los Angeles, who said that a confidential informant had reported that Julio Bermudez, a large volume cocaine dealer in the Los Angeles area, traveled regularly to San Francisco to obtain cocaine from Norwin Meneses' organization. Through telephone records, the Baldwin Park police had determined that Bermudez regularly called a telephone number in the San Francisco area that was listed to Jairo Meneses, another nephew of Norwin Meneses.

On November 12, 1981, Smith and local police in Los Angeles and San Francisco conducted a surveillance on Bermudez. Bermudez flew from Los Angeles to San Francisco carrying a small suitcase, then drove to a residence in Dale City that belonged to Carlos Cabezas.<sup>(29)</sup> Bermudez later drove to Jairo Meneses' house and returned the same night to Los Angeles.

On November 14, 1981, Los Angeles police executed a search warrant on Bermudez's house and seized \$12,000, approximately three pounds of cocaine, and a ledger containing the notation "11-11 90,000 to

Jairo." Bermudez was arrested, and he told the police that he had received the seized drugs from Norwin Meneses.

On November 16, 1981, Smith, DEA Agent William Ruzzamenti, and several other San Francisco DEA agents assisted local police in the execution of a state search warrant on Jairo Meneses' house in San Francisco. The agents seized \$9,000 in cash, miscellaneous papers, ledgers that appeared to relate to drug transactions, and 24 "Thai sticks," suspected to be marijuana. Jairo Meneses was arrested but was released from custody the next day when prosecution was declined by San Francisco Assistant U.S. Attorney Eric Swenson because no narcotics were found. Smith kept her case open until 1983, when it was closed after the seized cash was civilly forfeited.

In May 1982, Smith opened a third case relating to the Meneses organization, which involved another local police search warrant. The local police had received information that Roger Meneses stored cocaine in his house in San Bruno. On May 14, 1982, the local police, assisted by Smith, executed a search warrant on this house and seized guns, ammunition, \$5,000 in currency, and a small amount of marijuana. Roger Meneses pled no contest to possession of marijuana and received a suspended sentence.

Smith's fourth case was opened in January 1983, based on information from a source who said that he had purchased cocaine from Ernesto Meneses, who was the brother of Norwin Meneses. After this initial source information, however, no further evidence was developed and the case was later closed.

Throughout this time period, several other DEA offices in the United States and elsewhere received intelligence information in other cases that mentioned Norwin Meneses. For example, in 1981 an informant in Guatemala City reported to the DEA that Meneses had been a large-scale drug trafficker for at least ten years in Nicaragua. In 1981, the Guatemala City DEA office debriefed another informant regarding a cocaine trafficking group in San Francisco, and the informant mentioned Meneses as a secondary source of supply for this group. In a 1981 report, the DEA Costa Rica office discussed a major narcotics trafficker in Costa Rica; Meneses was said to be a courier for this trafficker. In 1982, the DEA office in New Orleans reported that a source had stated that Meneses imported cocaine into the United States in lumber shipments from Ecuador.

In addition to the DEA, other federal law enforcement agencies during this time received information about the Meneses organization's activities. For example, in 1982, a source told the FBI that Meneses was associating with known drug dealers and had a reputation as a hit man who had killed in Nicaragua. Another FBI source reported that Meneses was involved in the weapons business and had used automobiles to import cocaine into the United States. This source said that Meneses had purchased a large farm in Costa Rica and planned to establish his narcotics business there.

In 1983, the IRS attempted to pursue a "net worth tax case" against Meneses. But the IRS reported that it was able to develop significant income for only one year and was unable to develop a starting point for Meneses' wealth, because Meneses was from Nicaragua and "could easily use a `cash horde'

defense."<sup>(30)</sup> In 1983, the San Francisco United States Attorney's Office declined prosecution in the tax case because of weak or insufficient evidence, and the IRS concurred with this decision.

## **2. Allegation that Smith's investigations of Meneses were inexplicably halted**

In the San Jose Mercury News articles, Smith is quoted as stating that she thought her investigation into the Meneses organization was "really big," but that it was terminated shortly after she had followed Bermudez to Carlos Cabezas' house in Dale City in 1981. The articles reported that her enthusiasm for the case against Meneses was not shared by her DEA supervisors, who took her off the case to investigate motorcycle gangs. The article said that the reasons her investigation was halted were "not clear," but the articles implied that it was because she had stumbled onto a link between cocaine and the CIA's "secret Contra army."

We interviewed Smith about her investigations and her statements in these articles. She said that she was the first female agent in the DEA's San Francisco office, working there from 1974 until October 1982, when she went on maternity leave for a short time. In 1983, she became pregnant again and took maternity leave in the spring of 1984. She left the DEA permanently in December 1984.

Smith told us that the San Jose Mercury News articles "left certain things out" that she had said concerning the reasons she thought her investigations of the Meneses organization did not go anywhere. She told us that she believed that any investigation into the Meneses organization would have been a large and complex one and would require a task force approach to be successful. She said she tried to talk her supervisor into letting her run such a task force case against Meneses. Her supervisor spoke to the lead agent on the Hell's Angels case to which she was then assigned, but that agent said he needed Smith on the case. As a result, her request to work a task force matter against the Meneses organization was turned down. She said that she later spoke to another supervisor, who agreed that the Meneses case was big enough to require a task force approach, but he said that he did not have anyone who could run it. Smith suggested that she could do it, but the supervisor rejected her offer.

Smith told us that she did not think there was any "conspiracy" within DEA not to investigate Meneses or that the CIA or any other entity pressured the DEA not to pursue him. Rather, she thought that her efforts to organize a task force case against Meneses were rejected because of sexism and the low status of women in the DEA. She believes that if one of the male agents had suggested leading a task force in the Meneses case, as she had, her supervisors would have taken it more seriously. She said this attitude was demonstrated when, at a later time, an informant with information on the Meneses family was given to John Rotunno, another DEA agent, rather than to her, and Rotunno was allowed to work that case.

We attempted to interview Smith's supervisors about this claim, but were only able to interview one who is still with the DEA, Saverio Weidl. He supervised Smith in the San Francisco DEA office from 1981 until she left the DEA in 1984. He said that during that time, much of the San Francisco DEA office, and all of his group, including Smith, worked on the Hell's Angels case. He could not recall Smith ever approaching him to lead a task force against Meneses. He denied that she was treated any differently

from the male agents and said she never complained to him about any disparate treatment.

Smith said that when she left the DEA, she asked Rotunno if he wanted her personal notes and files on the Meneses organization. According to Smith, Rotunno said that he did not. As a result, Smith shredded them, although the official case files were retained. Later, Rotunno called her and asked for her personal files, but they had already been destroyed.

We interviewed DEA agent John Rotunno about the investigation of Meneses. Rotunno worked for the DEA in San Francisco from 1983 until December 1986, when he joined the Bureau of Alcohol Tobacco and Firearms (ATF). Rotunno said that he handled several cases on the Meneses organization, based on informants to whom he was introduced by the San Francisco police and others. As we describe below, these informants made undercover buys from the Meneses organization, resulting in the arrest of nine members of the group, including Roger Meneses and Jairo Meneses.

Rotunno told us that when he first came to the San Francisco DEA in 1983, Sandra Smith had collected substantial information on the Meneses organization and had "chased leads," but she had no informants who could infiltrate the organization or buy any drugs to make a case. Rotunno said Smith "dropped from sight" in the middle of the investigation of Meneses because of her pregnancy leave. Rotunno said he read all the information that Smith had gathered on the Meneses organization, and that Smith gave him three to four files filled with material. He did not remember Smith ever telling him that she had destroyed anything. He also said he was not interfered with during his investigations by the CIA or any other national security entity.

In short, whatever the reason that Smith did not get to work full time on the Meneses case, we did not find that her investigation was improperly halted or that the CIA or any other entity interfered with it.

### **3. More DEA investigations of the Meneses organization**

In 1983 and 1984, first with the assistance of Smith and then after Smith left the DEA, Rotunno pursued several cases against the Meneses organization in San Francisco. In October 1983, Rotunno opened his first case against the Meneses organization after Rotunno, Smith, and the San Francisco police interviewed an informant who had previously sold cocaine for the organization. The informant identified Roger Meneses, Jairo Meneses, and other family members as cocaine traffickers for the group. Between November 1983 and January 1984, Rotunno and other DEA agents conducted an extensive investigation, making several undercover drug purchases from members of the organization, taping telephone conversations, and seizing records and property pursuant to search warrants. Beginning in February 1984, nine people were arrested and convicted of distribution of a controlled substance, including Roger Meneses, who received a six-year sentence. Rotunno told us that after Roger Meneses was sentenced, he offered to cooperate with the DEA, but the Assistant U.S. Attorney handling the case refused to have him released from prison for this purpose.

In January 1984, Rotunno opened a second case on the Meneses organization, based on another



informant's report that he had met with Norwin and Jairo Meneses about their drug trafficking operations. According to the informant, Norwin Meneses asked the informant to run his organization in San Francisco because Norwin Meneses was upset with the way that Jairo Meneses was managing it. In Rotunno's case initiation report, he wrote that efforts would be made through the use of the informant to prosecute Norwin and Jairo Meneses.

Between May 1984 and November 1984, Rotunno's informant introduced undercover DEA officers to various members of the Meneses organization, including Jairo Meneses and Renato Pena, and the undercover DEA officers and the informant purchased cocaine from several individuals in the group. On November 27, 1984, the DEA arrested Jairo Meneses and Renato Pena after they delivered a kilogram of cocaine to the undercover officers.

After their arrest, Jairo Meneses and Pena agreed to cooperate with the DEA. As a result of their cooperation, on January 23, 1985, the DEA opened a drug conspiracy case targeting Norwin Meneses. San Francisco DEA agent Thomas Ma was the lead agent on this case, assisted by Rotunno. Jairo Meneses told Ma that Norwin Meneses had supplied the cocaine that Jairo had sold to the undercover officers on November 27, 1984, the day that Jairo was arrested, and that Norwin Meneses had been waiting at Jairo's house for the drug money that day. Jairo said that after his arrest, Norwin Meneses fled to Costa Rica and cut off contact with Jairo.<sup>(31)</sup>

Jairo Meneses also informed the DEA of the historical operation of the Meneses drug trafficking organization. Jairo said that when he and his family came to San Francisco in 1981, Norwin Meneses recruited him to work in his cocaine business. On a regular basis, the organization distributed cocaine to ten to twelve buyers, one of whom was Danilo Blandon. The cocaine was provided to the buyers on a consignment basis, and Jairo Meneses was responsible for collecting the money from them.

The DEA also debriefed Pena, who described his knowledge of Meneses' drug trafficking activities. Pena said that in early 1981, he met Norwin Meneses at a meeting of the Nicaraguan Contras in San Francisco. Shortly thereafter, Jairo Meneses recruited Pena to work in Norwin Meneses' drug trafficking organization. Pena said that he delivered money to cocaine suppliers in Los Angeles for Norwin Meneses. Pena also identified persons who bought cocaine from Meneses, although he did not mention Blandon.

On June 10, 1985, Jairo Meneses and Renato Pena pled guilty to distribution of a controlled substance in federal court. Both received a one-year sentence, which they served in a work furlough facility, with a five-year probation period.

In June 1986, DEA agent Ma closed his case against Norwin Meneses. He wrote in his report that informants were no longer willing to cooperate and were deactivated. He also wrote that without their cooperation, "it would not be possible to build a successful prosecutable case against the Norwin Meneses organization."

We interviewed Ma, who said he closed the case in June 1986 because the ability of his confidential informants, Jairo Meneses and Renato Pena, to provide current information was limited after their arrests, not because they were unwilling to cooperate. Ma said that they were willing to continue providing historical information, but the information they gave was not enough to get an indictment against Meneses. Also, because their arrests were well-known, their ability to get current information on the organization was limited. Ma said he had received information that Norwin Meneses was living in Costa Rica although he occasionally traveled to the United States. Ma said the CIA did not interfere in his investigation or pressure him to close the case. Rotunno confirmed that there was no pressure from anyone to close the case on Meneses.

## **E. The FBI and United States Attorney's Office Investigation of Meneses**

Rodolfo Orjales was the Assistant U.S. Attorney in San Francisco who handled the indictment and pleas of Jairo Meneses and Renato Pena. He said that at some point, probably just after they had served their sentences, FBI Agent Manuel Hinojosa approached him and stated that Jairo Meneses and Renato Pena wanted to cooperate in order to avoid deportation. Hinojosa told us that he met Pena through his foreign counterintelligence work that Hinojosa did in San Francisco in the early 1980s and that he knew Pena well. Although Hinojosa was not the case agent, he suggested to Pena that he should cooperate. Hinojosa confirmed that he had informed Assistant U.S. Attorney Orjales that Pena and Jairo Meneses wanted to meet with Orjales.

Orjales said he considered the request to meet with Meneses and Pena to be unusual, since Hinojosa was not the case agent on the matter, but Orjales agreed to meet. On July 8, 1986, Orjales met with Pena and Jairo Meneses without their attorneys, at their request. In his interview with us, Orjales said that he did not discuss with Pena and Jairo Meneses the details of their cases and that they provided him with information on Norwin Meneses. Orjales said they told him that Meneses owned a chain of Pollo Loco restaurants in Central America and used them to launder money, and that Meneses was involved in drug trafficking.

As a result of this interview, Orjales informed his supervisor in the U.S. Attorney's Office about what he learned. A later memorandum from the U.S. Attorney's Office to the Justice Department described in detail the information about Norwin Meneses that was provided by Jairo Meneses.<sup>(32)</sup> The memorandum stated:

Norwin Meneses has dealt directly with leaders of both the Contras and the Sandinistas since the early 1980s in an effort to promote his cocaine enterprise. Norwin lacks any political allegiance and will deal with anyone who will provide cocaine at the lowest price. The cocaine seized by various government authorities in Nicaragua and Honduras is sold to traffickers such as Meneses.

In 1982 Jairo Meneses went to Honduras on behalf of Norwin Meneses to negotiate terms of an agreement with officers of the national military police. . . Under the agreement

cocaine would be concealed in automobiles which were then exported to the United States. Approximately ten to twenty kilograms per month were imported in this manner.

Norwin Meneses has also obtained cocaine from individuals in the Sandinista government.

During the Somosa [sic] regime, Norwin Meneses smuggled weapons, silencers and video equipment into Nicaragua, which he exchanged for money or narcotics. The operation was discovered by Oscar Reyes who was a high-ranking customs official under Somosa. Norwin then arranged for Reyes' assassination.

Norwin has also dealt with Enrique Bermudez who was a colonel in the Somosa army and who is now an alleged leader of the Contra faction.

This memorandum noted that there was an ongoing drug task force investigation being conducted in Los Angeles (the 1986-87 Los Angeles OCDETF case against Blandon) and that it was anticipated that the information developed by the DEA and FBI in San Francisco would be of some benefit to the OCDETF case.

As a result of this information, the San Francisco United States Attorney's Office transferred the Meneses case from Orjales to a more experienced Assistant U.S. Attorney, Eric Swenson. Swenson supervised the San Francisco FBI investigation targeting Norwin Meneses, which, in the fall of 1986, began collecting and analyzing information and intelligence from its files about Norwin Meneses in an attempt to build a historical drug trafficking case against him.

In early 1987, the San Francisco FBI presented a memorandum summarizing its information about Norwin Meneses to the San Francisco U.S. Attorney's Office for a prosecutive decision. The FBI memorandum stated that, in addition to past intelligence information about Meneses, the FBI had recorded a conversation during a 1984 undercover investigation of other people in which Meneses stated that he owned numerous properties that he used to launder money and that he had an association with Pablo Escobar. Meneses also discussed the smuggling and distribution of kilograms of "apparatus" to Nicaraguans in San Francisco.

The FBI memorandum stated that the FBI had three informants who had discussed trafficking cocaine with Meneses between 1980 and 1985 and were willing to testify. The memorandum also reported that in 1985, another informant told the FBI that Meneses had discussed narcotics transactions and offered to purchase kilogram quantities of cocaine from the informant. The informant also stated that Meneses had a reputation as a gun runner in Nicaragua and may have worked for the CIA.

Because of the OCDETF case in Los Angeles, however, the San Francisco FBI and United States Attorney's Office decided to place the San Francisco investigation against Meneses on hold, or in an inactive status. In the Blandon chapter of this report, we described in detail the Los Angeles OCDETF

case, the proposed use of Meneses as an informant in that case, the agreement between the Los Angeles and San Francisco authorities that Meneses would have to plead guilty to a San Francisco-related drug charge, and the eventual closure of the Los Angeles OCDETF case. Before we turn to the use of Meneses after the Los Angeles OCDETF case, we now discuss several allegations that were raised in the San Jose Mercury News articles about the DEA's and FBI's investigations of Meneses in San Francisco during the mid-1980s and the potential compromise of those investigations.

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28. The San Jose Mercury News stated that, according to DEA records, Meneses had been implicated in 45 separate investigations. In fact, he was mentioned 53 times in the DEA NADDIS database, but this reflects the number of times that his name was indexed because there was information about him in a DEA file, not the number of investigations targeting him. In any event, the number of "hits" in a database such as NADDIS means comparatively little given the inconsistent manner in which information is put into the system.

29. As we describe in Chapter IX below, Cabezas was a San Francisco drug trafficker who claimed he was associated with the Contras. The San Jose Mercury News articles stated, incorrectly, that Smith never learned that Cabezas lived at the house to which Bermudez was followed. In fact, Smith's report of the surveillance states that Cabezas lived there.

30. In general, criminal tax cases are either "expenditures" cases, in which the purchases of the subject of the investigation are collected and analyzed, or "net worth" cases, in which the investigators establish a financial baseline and seek to establish that flows of income and expenditures do not match what the taxpayer has reported to the IRS, frequently because substantial income has been generated by illegal activities. A pre-existing "cash hoard" can undercut the analytical premise of a net worth tax case by permitting the argument that the funds that permitted substantial expenditures were generated by the pre-existing cash hoard rather than by unreported income.

31. Several reports confirm Meneses' flight from the United States. A 1984 report from the Costa Rica DEA office contained a statement attributed to an informant that Norwin Meneses was then living in Costa Rica and smuggling kilogram quantities of cocaine into the United States. A later FBI report said that Norwin Meneses had left the United States in 1985 and sold his properties in San Francisco.

32. This memorandum was sent in response to a request from the Justice Department for information on investigations or prosecutions of any persons associated with the Nicaraguan Contras. The Department had been asked for this information by Congressional committees investigating the Contras, including the Kerry Subcommittee investigation, as well by the special prosecutor investigating the Iran-Contra case.

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## F. Allegations About the Investigations

### 1. "David Morrison"

The San Jose Mercury News articles stated that an economist who lived in San Francisco in the 1980s, whom the articles gave the pseudonym "David Morrison," had reported information to the FBI in the mid-1980s about the Contras and Norwin Meneses. According to the article, Morrison had learned that Meneses, who was contributing to a Contra group called United Support Against Communism, "wasn't just smuggling cocaine for himself. He was doing it for the FDN, and he was selling them weapons as well, with the knowledge of the FDN's military commander and, it appeared, the tacit approval of the U. S. government." The article stated that Morrison reported to FBI agents that Meneses would have been arrested in a major drug case in 1983 or 1984 except that he had been warned of the case by a corrupt law enforcement officer, and that the FBI had no interest in Morrison's information on Meneses.

In FBI files we found the report from two San Francisco FBI agents who, on January 21, 1987, interviewed the person the San Jose Mercury News called "David Morrison." The FBI report had been sent to FBI Headquarters and turned over to the Iran-Contra special prosecutor. According to the FBI report, Morrison described himself as a self-employed real estate investor who coordinated fund raising trips to San Francisco by Contra leader Adolfo Calero. According to the report, Morrison heard "word" in the Nicaraguan community that the FDN was "probably" engaged in cocaine smuggling.

The FBI report contained some information on Norwin Meneses. It stated that Calero had come to San Francisco in June 1984, and Morrison sponsored a party for him at the St. Francis Yacht Club, attended by sixty people, including several Republican Party leaders and businessmen. After the party, Calero and approximately twenty people went to a restaurant, where Meneses picked up the tab for the entire dinner party. In addition, the report stated that in September 1985, Renato Pena suggested to Morrison that the FDN was involved in drug smuggling with the aid of Norwin Meneses. Morrison also heard from a reporter that Meneses owned a ranch in Costa Rica that the FDN was using to refuel planes flying in from Colombia with cocaine. The report stated that a U.S. Customs Service undercover officer investigating the Nicaraguan role in a narcotics ring had complained that "national security interests" had interfered in his investigation. The Customs officer allegedly told Morrison that "Norwin Meneses would have been arrested in a major drug case in 1983 or 1984 except that he had been warned by a corrupt Drug Enforcement Administration (DEA) officer. Renaydo [sic] Pena may have been present when the DEA Agent warned Meneses."

The OIG interviewed "David Morrison" about this information. Morrison described how he became involved with the FDN in the fall of 1983 and began to meet exiled Nicaraguans. Morrison said that Adolfo Calero met with him and other business leaders in San Francisco but Morrison said he was never involved in fund raising for the Contras.

Morrison said he had no first hand information about drug smuggling by the Contras. He said that some

FDN troops told him that cocaine was coming back to the United States on planes flown by Americans in connection with the supply network for the Contras, but Morrison stated that this was "just hearsay information." Morrison said that "Commander Aureleano" told him that he would get more information about drug shipments but Aureleano was murdered in Honduras.

Morrison told the OIG that in the summer of 1985, he began to hear that money and supplies were not reaching the Contras. Morrison became concerned about what was being done through the supply network and speculated with a friend that the planes "may not be coming back empty." When questioned about what "supply network" Morrison was talking about, he could not say who was running the network, what type of aircraft was being used, or who the pilots were. Morrison stated that because Americans were flying the planes, he assumed that the CIA was involved, although he provided no facts to support this assumption. Morrison also said that Contra troops told him that they had no involvement in drugs but that "something fishy" might be going on at a ranch in Costa Rica owned by John Hull.

Morrison said he only met Meneses once, in the spring of 1984, at the dinner with Adolfo Calero. Morrison also recalled that in the summer of 1985, FDN members told him that Meneses had made a \$40,000 donation in 1981 to the Contras to purchase camping equipment and radios. Morrison remembered hearing that Meneses was "playing both sides" because he was trading weapons for cocaine paste from the Sandinistas. Morrison stated that in his opinion it was "business, not politics" with Meneses and that the San Jose Mercury News articles "got it wrong" because Meneses was just a drug dealer who had no real connection with the Contras and did not give them any money after the 1981 contribution. Morrison stated that he had heard rumors that Meneses was close to Enrique Bermudez and that Bermudez was involved with drugs, but Morrison said that this was all "hearsay" and that he was not sure if the rumors concerned small drug deals by the Contras or the Contras' allowing drug planes to refuel in areas they controlled.

Morrison said that in the summer of 1985, he was told by Nicaraguan friends that Meneses was "protected" and that Meneses had an informant in DEA on his payroll. Morrison said he did not know if this referred to a DEA informant or a DEA agent. Morrison said that Renato Pena told him that Meneses had been tipped off by "Willie" that Meneses was to be arrested by the FBI and that Meneses paid "Willie" \$1,000. Morrison said that when he gave his information to the FBI agents who had interviewed him, they started screaming at him, "How dare you accuse Mr. Meneses of anything. There are no files against Mr. Meneses in any government agency. Who the hell are you?"

Morrison told the OIG that he had talked to a Customs agent about the drug problem in San Francisco and that the agent told him that the Customs budget had been cut by about 75 percent and that there were not enough agents to handle the cases. Morrison denied that the Customs agent ever told him that "national security interests" were interfering with Customs investigations, as reported in the FBI account of his interview. Morrison also told the OIG that he had asked the Customs agent about Norwin Meneses and that the agent told Morrison that there was a Customs file on Meneses but that it would be a "career-breaker" to do any work on it. Morrison claimed the agent said it was all right to file reports, but that any substantial work on the matter would result in a transfer to a dismal outpost or other retaliatory action, and that Customs agents "just knew by bureaucratic pressure" not to work on certain cases. Morrison

denied that the Customs agent ever told him that the case was not to be touched because of national security interests or because of CIA influence. Morrison also denied statements attributed to him that the Customs agent was transferred as a result of his investigation into the FDN.

The OIG attempted to talk with the Customs agent with whom Morrison spoke, but he is retired and he refused to talk with us.

We interviewed the two FBI agents who took the report from Morrison in 1987. One stated that he was asked to provide some leads in San Francisco for the FBI "Front Door" case, which later became the Iran-Contra Independent Counsel's case. He said that after Morrison had contacted the FBI, he and another San Francisco FBI agent were assigned to interview Morrison. The FBI agents were instructed to do the interview and pass the information to FBI Headquarters for transmittal to the Iran-Contra special prosecutor. The FBI agent said that he remembered that Morrison saw conspiracies everywhere. The FBI agent said that, as instructed, he interviewed Morrison, wrote a report containing the information that Morrison reported, did not evaluate it or investigate it, and sent the report to FBI Headquarters for transmittal to the special prosecutor. The FBI agent did not remember receiving any response from Headquarters about it.

Both FBI agents denied having any confrontation with Morrison about Meneses. They said they had not heard of Meneses prior to the interview and denied chastising Morrison for raising any allegations about him.

In sum, Morrison's statements as reported in the San Jose Mercury News articles and FBI report and his statements to us differed in several respects. He denied to us that he had first hand knowledge of much of the information in the report and he claimed not to have said certain things that were included in the FBI report and Mercury News articles. We find it unlikely that the FBI agents screamed at him for reporting information about Meneses, as he claimed to us. They credibly claimed that they had not known about Meneses before the interview and they included Morrison's comments about Meneses in their report and passed the information along.

## **2. Alleged DEA Corruption**

Morrison's information about a corrupt DEA officer refers to an allegation that was investigated in 1985 by the DEA Office of Professional Responsibility (DEA OPR). DEA OPR files show that in June 1985, DEA OPR opened a case based on an allegation from the defense attorney for Jairo Meneses that a DEA agent had accepted money from Norwin Meneses for investigative information.

On June 20, 1985, DEA OPR investigators interviewed Jairo Meneses about his lawyer's allegation. Jairo Meneses stated that in 1981, a drug dealer whom he named (referred to here as "the source") had told his uncle, Norwin Meneses, that he could provide information and protection from his "connection" in DEA. "The source" named his contact in DEA. According to Jairo Meneses, in the summer of 1982, Norwin Meneses tried to give the agent \$5,000 in cash in a bowling alley in Dale City, California. The

agent told Norwin Meneses to give the money to Jairo Meneses, who gave the money to the agent outside the bowling alley.

On June 26, 1985, the DEA polygraphed Jairo Meneses, asking him whether he lied about giving the agent \$5,000. The polygraph examiner determined that Jairo was deceptive when he denied lying. Jairo Meneses nevertheless continued to maintain that he had in fact given the money to the agent.

DEA OPR also interviewed Renato Pena in 1985. Pena claimed that sometime around the summer of 1983 he heard Jairo Meneses tell Norwin Meneses that the reason the "DEA agent" did not take the money was because Norwin had "thrown" the money at the agent, so the agent had made Jairo hand him the money. Pena knew only the agent's first name. Pena said he was present during conversations when the Meneseses discussed getting information from "the source." Pena believed the source's information came from a DEA agent. Pena could provide no further information concerning the agent. Pena was not polygraphed by the DEA.

In July 1985, "the source" was interviewed by DEA OPR. "The source" said he had worked for the DEA as a confidential informant since 1978 and worked with the agent until late 1982 or early 1983. "The source" said he sometimes represented himself as a "crooked" DEA agent who worked with other "crooked" DEA agents. He recalled using this approach with Norwin and Jairo Meneses and said he may also have identified the agent as crooked as part of the ruse. "The source" denied having any illegal or improper dealings with the agent or any other DEA agent. "The source" said his business partner was present during some conversations with the Meneseses.

DEA OPR also interviewed "the source's" business partner, who said that "the source" often told people that he worked for DEA and that he and several DEA agents were corrupt. The business partner said "the source" did this to initiate drug cases for DEA and to introduce DEA agents undercover. The business partner added that he had heard Meneses brag about having connections in the United States government, including the CIA and politicians in San Francisco. The business partner never heard Meneses talk about any corrupt DEA agents, and the business partner had no knowledge of any.

On August 22, 1985, DEA OPR interviewed the agent and took a sworn statement from him. He denied ever receiving any illegal payments from the Meneseses or supplying them with any DEA information. The agent said he had tried to get Jairo Meneses to cooperate with DEA after his arrest in 1981 in the case investigated by Sandra Smith (see section above). Jairo had refused because he feared for his safety, but had said he would try to get Norwin Meneses to cooperate. In late 1981 or early 1982 the agent received a phone call from Norwin Meneses, who said that he had spoken with Jairo and would attempt to assist Jairo by supplying information about drug trafficking. Norwin said he was living in Los Angeles and traveling frequently to Central America, "where he was involved in the revolution to overthrow the Nicaraguan government."

The agent said that in 1982, when he stopped by "the source's" office, he saw Norwin and Jairo Meneses there. The agent was introduced to Norwin Meneses, who said that he was "a revolutionary and not



interested in drug trafficking; however he wanted to help Jairo and knew others who were involved in cocaine smuggling." Norwin Meneses said that if he received information about drug transactions, he would pass it on to the agent. The agent denied having any other meetings with Norwin and denied that any bribe was ever offered or discussed.

DEA OPR issued a report on October 7, 1985, concluding that the allegations were not substantiated. On February 3, 1986, it issued a letter of clearance to the agent.

Later, in July 1986, the FBI polygraphed both Jairo Meneses and Renato Pena concerning the alleged bribe to the agent. The FBI polygrapher concluded that they were deceptive when they denied lying about their allegations.

In 1987, after Norwin Meneses offered to cooperate with the DEA's Costa Rica office, he again raised the allegation about the agent to Sandalio Gonzalez, the DEA agent in Costa Rica who debriefed him. According to a memorandum from Gonzalez, during a debriefing session on February 10, 1987, Meneses said that "he had personally paid the sum of \$5,000 on numerous occasions to the agent, allegedly for protection. This took place in the San Francisco area approximately 3-4 years ago." Meneses added that the agent " was working in concert with some corrupt San Francisco police officials." Gonzalez reported in the memorandum that he did not get a detailed debriefing on this subject but was sending it to DEA Headquarters in compliance with DEA policy. The memorandum noted that there was a possibility that Norwin Meneses would meet with DEA inspectors concerning his allegations, and Gonzalez asked for instructions from DEA Headquarters on how to proceed.

According to a handwritten note in the DEA OPR file dated March 16, 1987, a DEA OPR official advised Gonzalez by telephone that the allegation about the agent had been made in June 1985, was investigated by DEA OPR then, and was found to be false. No further action was requested or taken concerning Meneses' claim.

We interviewed several of the persons involved with this allegation. Renato Pena told us that Norwin Meneses was bribing a DEA agent, but Pena refused to identify the agent to us. Pena said he was told by Jairo Meneses that this agent went to Jairo's house in Dale City in 1981 and showed interest in making contact with Norwin Meneses. Pena said that in about 1983 at a bowling alley in San Francisco, he saw Norwin Meneses give the agent an envelope containing several thousand dollars. Pena claimed this DEA agent called Norwin a few weeks before Julio Zavala and Carlos Cabezas were arrested, and warned Meneses about their impending arrests. (This refers to arrests in the San Francisco "Frogman case," described in Chapter VIII below. These arrests occurred on February 15, 1983.)

Retired FBI agent Manuel Hinojosa told us that Pena had told him in 1984 about a San Francisco police officer whom Pena said Norwin Meneses was "paying off," but Pena never told Hinojosa that he had seen any money exchanged. According to Hinojosa, Pena never said anything about any federal agents being paid off or about any payoff in a bowling alley.

When we interviewed Norwin Meneses in Nicaraguan prison, he denied that anyone in DEA provided him with any information about any investigations. We were unable to locate Jairo Meneses.

We also interviewed the agent about this allegation. Consistent with his previous statement to DEA OPR, he denied receiving any bribe from Meneses or providing Meneses with any information. The agent said that after the arrest of Jairo Meneses in 1981, he had tried to get Jairo to "roll over" on Norwin but Jairo had refused. However, Jairo thought that Norwin Meneses would work with the DEA. The agent said he met with Norwin, who denied being a drug trafficker and said he was only interested in "getting his country back." Norwin eventually returned to Nicaragua and later contacted DEA agent Gonzalez in Costa Rica.

The agent said he did not recall specifically the conversation with Norwin Meneses about what he was doing for the Nicaraguan revolution. The agent said that Meneses was "pretty cryptic." The agent said he had the "impression" that Norwin was moving guns for the Contras. The agent said he also suspected CIA involvement with Meneses because of his claimed ties to the Contras. The agent said he contacted CIA in San Francisco and asked if the CIA was involved with Norwin and the CIA denied it.

In short, the allegations about the DEA agent's corruption were previously raised, investigated, and found to be unsubstantiated by DEA OPR. Pena and Jairo Meneses gave conflicting stories about the alleged bribe, and they failed polygraphs conducted by the DEA and the FBI. Moreover, an FBI agent said that Pena had told him about corrupt police officers but never mentioned anything about a corrupt DEA official. Our review found no information to undermine the credibility of DEA OPR's conclusions.

## **G. DEA's use of Meneses as an informant**

### **1. Meneses' offer to cooperate and the 1987 Los Angeles OCDETF investigation**

In Chapter II, section G, of this report, we described in detail how Norwin Meneses became a source of information for the DEA Costa Rica office in 1986 and the unsuccessful 1986-87 Los Angeles OCDETF investigation involving him. Rather than repeat that discussion in detail here, we will briefly summarize it before discussing the continued use of Meneses as an informant by the Costa Rica DEA after the Los Angeles OCDETF investigation was closed in 1987.

In July 1986, Norwin Meneses approached the Costa Rica DEA office unsolicited and offered to provide information on drug traffickers. The DEA agent in Costa Rica, Sandalio Gonzalez, debriefed Meneses, who provided the names of numerous drug traffickers inside and outside the United States. After checking DEA databases and finding no arrest warrants for Meneses, Gonzalez proposed using Meneses to introduce an experienced DEA confidential informant (DEA CI-1) to drug traffickers in Central America, South America, and elsewhere.

In December 1986, under Gonzalez's direction, Meneses and DEA CI-1 traveled to Los Angeles and in January 1987 met with Danilo Blandon, Ivan Torres, and members of Blandon's organization. The FBI

and the U.S. Attorney's Office in San Francisco were surprised to learn about this use of Meneses. The lead FBI agent on the Los Angeles OCDETF case, Doug Aukland, was also upset that he did not get a chance to interview Meneses before he returned to Costa Rica in January 1987.

In February 1987, discussions among various agencies conducting the investigations of Blandon and Meneses in Los Angeles and San Francisco, including the DEA, FBI and United States Attorney's Offices, resulted in an agreement that Meneses could be used as a source of information in the Los Angeles OCDETF case against Blandon but that Meneses would have to plead guilty to a cocaine-related charge based on his drug trafficking activities in San Francisco. The FBI in San Francisco opened a case on Meneses, but placed it in an inactive status while the Los Angeles OCDETF investigation proceeded.

In the spring and summer of 1987, attempts to get Meneses to return to the United States were unsuccessful. In response to requests to get Meneses to cooperate in the OCDETF case, DEA agent Gonzalez reported from Costa Rica that Meneses was not willing to testify in court, that Meneses would speak only with certain DEA agents, and that Meneses wanted assurances that he could live in the United States. DEA Headquarters refused to agree to protect Meneses' identity. In July 1987, prosecution was declined in the OCDETF investigation, and the case was closed, partly because of Meneses' unwillingness to cooperate.

## **2. Continued use of Meneses by the Costa Rica DEA**

Despite Meneses' reluctance to testify in court or cooperate with the Los Angeles OCDETF investigation, on July 24, 1987, the DEA in Costa Rica formally established him as a confidential informant. The Costa Rica DEA office wrote that Meneses, who had been a major trafficker, was prepared to assist the DEA and travel for the DEA in furtherance of major drug trafficking investigations in the United States, Central America, and South America. The DEA report noted that among the groups that might be targeted were some Nicaraguan government officials. In the DEA paperwork that activated him as an informant, the DEA Costa Rica wrote under the heading Prior Criminal Record, "no pending charges known at this time."

In September 1987, at the request of the Costa Rica DEA, Meneses received a 45 day visa to travel to the United States to assist in DEA investigations. On September 19, 1987, Meneses and DEA CI-1 went to Miami and made contact with a significant number of drug traffickers, one of whom was Blandon. DEA CI-1 reported that when he and Meneses met Blandon, they broached the subject of money laundering. Blandon said he was laundering money on a small scale for narcotics traffickers but that he expected this business to grow.

From Miami, Meneses traveled to San Francisco. On October 3, 1987, an FBI informant told FBI Special Agent Donald Hale that Meneses was in San Francisco. This informant later advised Hale that Meneses was telling his associates that he was an informant for the CIA and that was why he had not been arrested for drug trafficking.

We found no mention of Meneses' visit to San Francisco in the Costa Rica DEA files. But a later debriefing of DEA CI-1 by DEA agents in Los Angeles, found in a DEA general file entitled "Cocaine," stated that DEA CI-1 said that DEA CI-1 and Meneses went to San Francisco to work on a DEA operation there. The report stated that Meneses met with a pilot to arrange for the smuggling of 10,000 kilos of cocaine into the United States but no agreement was reached.

Meneses returned to Costa Rica where he was debriefed by Gonzalez about his activities in the United States on behalf of the DEA. He continued to work on other cases for the DEA Costa Rica office, including a major investigation of Colombian drug traffickers.

On November 23, 1987, the DEA Costa Rica office requested another 45-day single entry visa for Meneses to enter the United States. In November and December 1987, Meneses and DEA CI-1 returned to the United States and traveled to Miami, Los Angeles, and San Francisco to meet with drug traffickers on behalf of the DEA. As a result of Meneses' cooperation, several DEA cases were initiated, including a case against Aparicio Moreno.

In January 1988, DEA agent Gonzalez was transferred from Costa Rica to the DEA office in Mexico City, and his cases and confidential informants were reassigned to other agents. DEA Special Agent James Rivera continued to work with Meneses after Gonzalez left Costa Rica. In 1988 and 1989, Rivera initiated several cases on drug traffickers in Central and South America based on information and assistance from Meneses that resulted in the arrest of several persons and the seizure of cocaine intended for shipment from Panama through Costa Rica to the United States.

On December 23, 1989, the DEA Costa Rica office deactivated Meneses as an informant. The deactivation form stated that although Meneses attempted to generate activity in investigations in which he was involved, none of them "appears to have any chance of fruition" and that given DEA guidelines concerning informant utility, he had to be deactivated.

According to DEA records, between the time Meneses was established as an informant in July 1987 until he was deactivated in December 1989, the DEA paid him \$6,877, much of it to cover expenses Meneses incurred during his travels for the DEA. As we describe below in section I, the Costa Rica DEA activated him again in May 1990 for a short time, paid him \$500, and deactivated him several months later. All told, Meneses received a total of \$7,377.50 spread over 13 payments from the DEA.

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## H. Indictment of Meneses in 1989

At the same time Meneses was working as an informant on behalf of the DEA, he was also the subject of the continuing San Francisco FBI investigation. In February 1989, as a result of the FBI case, Meneses was indicted in San Francisco for historical cocaine trafficking activities that had occurred in 1984 and 1985. According to the San Jose Mercury News, the 1989 indictment of Meneses was "quickly locked away in the vaults of the San Francisco federal courthouse, where it remains today -- inexplicably secret for more than seven years. Meneses was never arrested." The articles also stated that no arrest warrant was ever entered into the FBI's automated database of criminal information, NCIC (National Crime Information Center). Among other information, this database contains information on wanted persons and can be accessed by federal, state, and local law enforcement agencies. The implication of the articles was that law enforcement entities, and perhaps the CIA, conspired to protect Meneses from arrest.

These allegations were not supported by our review concerning the handling of Meneses' case and his indictment. The indictment was sealed, which is common when a defendant is not in the country, and the arrest warrant was entered into the NCIC database. Although Meneses was never arrested on this warrant, the evidence shows that this was the result of inadequate coordination between the DEA and the FBI, not due to any conspiracy to protect him.

As noted above, the Los Angeles OCDETF case was declined for prosecution in the summer of 1987. After the closure of the OCDETF case, Special Agent Donald Hale of the San Francisco FBI reopened the FBI's case against Meneses, which had been in an inactive status. In January 1988, Hale wrote a cable to FBI Headquarters describing the history of the San Francisco FBI's investigation of Meneses and its current status. He stated:

It became apparent to the FBI that Norwin Meneses was, and may still be, an informant of DEA. It is also believed by the FBI, SF, that Norwin Meneses was, and may still be, an informant for the Central Intelligence Agency (CIA).

The cable added that this information was based on a confidential source of the San Francisco FBI office, who had stated that Meneses was recently in the San Francisco area and had been bragging to associates that the reason he was not being prosecuted was because he was an informant for the CIA. The cable added that the San Francisco United States Attorney's Office had authorized prosecution of Meneses, but that prior to bringing formal charges, that office wanted the DEA and the CIA to state any objections they had to prosecution of Meneses and advise the FBI of any possible problems stemming from Meneses' informant status.

On April 15, 1988, FBI Headquarters informed FBI San Francisco that the General Counsel's Office of the CIA had reported that a search of CIA files and indices located no information indicating that Meneses was ever employed by or was an informant for the CIA and that the CIA did not have any objections or problems with a prosecution of Meneses. Although we found no written response from the

DEA, a later cable from the San Francisco FBI stated that the FBI had met with the DEA in San Francisco and that the DEA had not objected to an indictment of Meneses.

On February 8, 1989, a federal grand jury in San Francisco returned a two count indictment against Norwin Meneses, charging him with conspiracy to distribute cocaine and possession with intent to distribute cocaine. The first count stemmed from the 1984 sale of cocaine to an undercover agent. Meneses was identified as the source of the cocaine that was sold by a third person to the undercover agent. The second count stemmed from an informant's report that the informant had provided cocaine to Meneses in 1985. Both counts carried a maximum penalty of fifteen years in prison and a \$25,000 fine.

Eric Swenson, the Assistant U.S. Attorney in San Francisco who handled the indictment of Meneses, told us that the indictment was precipitated primarily by the five-year statute of limitations on drug offenses, which was about to expire in the Meneses case. Swenson's recollection is confirmed by a prosecution memorandum he wrote just before the indictment was returned in 1989. In that memorandum, Swenson summarized the background of the case, including Meneses' use as an informant by the DEA, the attempt to obtain Meneses' cooperation in the Los Angeles OCDETF case, and the failure of that case. The memorandum stated that Meneses had been out of the United States for the past two years and his whereabouts were unknown. The memorandum reported:

This is an old case . . . The primary reason for returning the Indictment at this date is because of the upcoming Statute of Limitations problems. Don Hale of the FBI has therefore requested, and I agree, that Meneses be indicted, that the Indictment be placed under seal, and that at least we have an arrest warrant issued for him.

Consistent with this memorandum, Swenson had the indictment filed under seal when it was returned by the grand jury. Swenson told the OIG that the indictment was sealed because Meneses was a fugitive at the time and that it was standard practice for an indictment to be filed under seal in such a case.

On February 8, 1989, the federal court in San Francisco also issued a no-bail arrest warrant for Meneses. Contrary to the allegation in the San Jose Mercury News, on April 12, 1989, the warrant was entered into the FBI's NCIC database. The warrant currently appears in NCIC as an outstanding warrant for Meneses' arrest.

## **I. Post-Indictment Activities**

### **1. DEA's use of Meneses as an informant in 1989**

As noted above, when Meneses was indicted by the San Francisco FBI in 1989, he was also a confidential informant for the DEA in Costa Rica. From 1987 through 1989, he had already traveled to the United States, Colombia, and Panama for the DEA, receiving several thousand dollars for his cooperation.

Surprisingly, in 1989, even after the San Francisco indictment and arrest warrant were issued, Meneses continued to work as an informant for the DEA in Costa Rica and travel to the United States on behalf of the DEA. In April and May 1989, the DEA Costa Rica office sent a cable describing Meneses' proposed travel for work on DEA undercover operations to DEA Headquarters and DEA offices in Los Angeles, Miami, and New York, as well as to the American Embassies in Colombia and Mexico. The DEA Costa Rica requested a visa for Meneses to enter the United States, which was granted. The Costa Rica file also indicates that the Costa Rica DEA coordinated Meneses travel with the Los Angeles DEA.

DEA SA Rivera, Meneses' handler in Costa Rica at this time, said he was not aware of the warrant for Meneses. He added that he did not know why the warrant was not noticed when the DEA requested the visa for Meneses in 1989, after Meneses' indictment had already been placed in NCIC.

According to an August 28, 1989, debriefing report filed by Rivera, on May 11, 1989, Meneses traveled from Costa Rica to Miami to help in a DEA undercover operation targeting money laundering and cocaine smuggling into the United States. Meneses remained in Miami for ten days and met various drug traffickers there, including Danilo Blandon. Also at the DEA's direction, Meneses went from Miami to Los Angeles to meet with drug traffickers. In Los Angeles, when he approached a representative of the target of a DEA investigation, that person drew his gun on Meneses and stated that Danilo Blandon had told the person that Meneses was a police informer.<sup>(33)</sup> Meneses returned to Miami and in August 1989, he went back to Costa Rica.

In September 1989, Meneses also traveled to Colombia for the DEA to work on undercover cases involving cocaine processors and smugglers there. As discussed above, on December 23, 1989, Meneses was deactivated as an informant by the DEA's Costa Rica office.

## **2. FBI Efforts to Locate Meneses**

In 1989, while Meneses was working on behalf of the DEA and traveling in the United States, the FBI in San Francisco was attempting to locate him to arrest him in connection with the February 1989 San Francisco indictment. During this time, the FBI was apparently unaware of his activities on behalf of the DEA. In April 1989, the FBI opened a fugitive file on Meneses based on the San Francisco indictment. In June 1989, the FBI in San Francisco reported that source information suggested that Meneses was at that time residing in San Jose, Costa Rica, and had a business there. On June 29, 1989, the FBI requested that the FBI Legal Attache in Panama locate Meneses through the DEA in Costa Rica. At that very time, Meneses was in the United States working for the DEA. Due to turmoil in Panama at the time, the Department of State ordered United States law enforcement personnel to leave Panama in May 1989. The FBI Legat in Panama relocated to Mexico City. FBI records show that the Mexico City office received the June request for assistance on September 28, 1989.

In October 1989, the FBI in San Francisco sent another cable to the FBI Panama Legat stating that Meneses was a fugitive and was believed to be residing in Costa Rica.

The Panama Legat did not contact the DEA in Costa Rica, and the case was reassigned to the Assistant Legat in Mexico City, Ernie Terrazas. The Assistant Legat contacted the DEA in Costa Rica on January 22, 1990. By this time, Meneses had returned to Costa Rica from the United States and had been deactivated as a DEA informant. According to a February 6, 1990, cable from Assistant Legat Terrazas to the San Francisco FBI, when the Assistant Legat asked the DEA Country Attache for Costa Rica, Ron Lard, about Meneses on January 22, 1990, Lard described Meneses as a "very valuable and current active DEA source in Costa Rica and not a former informant of DEA."<sup>(34)</sup> The FBI Assistant Legat therefore requested in his cable to the San Francisco FBI that the FBI and DEA in San Francisco "coordinate all aspects of [Meneses'] indictments to insure that the best interest of both agencies are served" and notify the FBI Assistant Legat of the results of the discussions. The cable noted Meneses' address and phone number in Costa Rica, which Lard had provided.

On February 12, 1990, the FBI in San Francisco informed the Mexico City Assistant Legat in a sharp response that prior to Meneses' indictment in 1989, the San Francisco FBI had queried the CIA and met with the DEA in San Francisco. The FBI San Francisco wrote that it would not have pursued an indictment of Meneses if it had been aware of Meneses' cooperation with any law enforcement or intelligence agency, but no one had objected to the indictment. The FBI San Francisco requested that:

DEA Costa Rica advise when Meneses became a very valuable DEA source. Was it prior to or after indictment? Did DEA conduct appropriate checks to determine Meneses' legal status prior to operating him?

On April 24, 1990, the FBI Assistant Legat in Mexico City responded to FBI San Francisco, stating that he had recontacted DEA Country Attache Lard, who had

reiterated that his headquarters never advised him of FBI's intentions to indict [Meneses] and that their only information was from DEA San Francisco which was that FBI San Francisco wanted [Meneses'] cooperation in drug matters. However, [Meneses] had refused to work with FBI. DEA San Jose, Costa Rica believes that [Meneses] was indicted in order to seek his cooperation in drug matters. DEA San Jose, Costa Rica also advised that [Meneses] does not want to cooperate with the FBI.

The Assistant Legat stated, however, that Meneses was no longer an active DEA source since he had failed to provide any information of value in the last six months. The cable also reported that Meneses had a difficult time entering the United States, even with DEA's assistance. The FBI Assistant Legat said that the request concerning Meneses would be placed in "RUC status," meaning that he would not do anything further unless contacted.

The Assistant Legat told us that he sensed there were problems between the DEA and the FBI about this issue, and he did not want to get in the middle of this conflict. He also said he did not seek Meneses' extradition because the San Francisco FBI did not direct him to do so, and the request from the San Francisco FBI office was only to locate Meneses, not to seek his extradition. According to the DOJ



Office of International Affairs, the DOJ office that would process any formal request for extradition, there was never any such request made for Meneses' extradition.

The main FBI San Francisco agent on the Meneses case, Donald Hale, is now deceased. We interviewed another San Francisco FBI agent who assisted in the case against Meneses, W K Williams, but he had only a vague recollection of this matter. He thought that Hale had looked into the issues surrounding extradition of Meneses from Costa Rica and thought either that there was no extradition treaty with Costa Rica or that Costa Rica was unlikely to extradite a fugitive to the United States. In fact, although there was an extradition treaty between Costa Rica and the United States, it did not cover extradition for drug trafficking offenses. Williams said that the FBI did not believe that the DEA in Costa Rica, or the Costa Rican authorities, would arrest Meneses, and the FBI therefore had left Meneses in a fugitive status.

DEA Country Attache Lard told us that he recalled talking to an FBI agent (whose name Lard could not recall) about an informant and being told that the informant had been indicted in order to get him to cooperate with the FBI. Lard could not recall if this related to Meneses. Lard recalled telling the FBI agent that if the FBI was going to prosecute the informant, then the DEA would assist in getting him back to the United States, but not otherwise. Lard said he told the FBI if they did not have a prosecutable case he would not assist them.

### **3. Costa Rica DEA reactivates Meneses**

In May 1990, DEA Costa Rica again activated Meneses as an informant for a brief time. According to a report prepared by DEA Costa Rica agent Rivera, in April 1990 Meneses reported to Rivera that Blandon had contacted Meneses and "intimated that he needed [Meneses'] help in transporting very large quantities of cocaine from Central America to Florida." Meneses agreed to fly to Guatemala to meet with Blandon and a Colombian to transport the cocaine. On May 10, 1990, Rivera reactivated Meneses as an informant, and paid him \$500.

The DEA enforcement procedures for the reactivation of informants requires the filing of a DEA report that contains the reason for reactivation and "any developments during the period of deactivation which would affect the informant's status as a restricted use or defendant/informant." DEA procedures also require "thorough coordinat[ion] between the DEA and FBI" whenever there is an attempt to recruit an informant or witness who is a "significant target in an active or pending DEA or FBI investigation" or who was in the judicial process.

The DEA form reactivating Meneses as an informant in May 1990 did not indicate that he was under federal indictment, despite the fact that DEA Costa Rica was aware of this fact. There is also no evidence in the files that DEA Costa Rica made contact with the San Francisco FBI or United States Attorney's Office before reactivating him. Rivera said he did not do a check of Meneses in NADDIS or NCIC before activating him again, since he had used Meneses as a confidential informant previously.

We found no report in DEA files describing whether Meneses eventually met with Blandon or what happened there. There was a DEA report describing its use of another confidential informant in the Guatemala case, but nothing about what Meneses did in Guatemala. DEA SA Rivera did not recall if Meneses ever went to Guatemala on this case.

On August 16, 1990, the DEA Costa Rica deactivated Meneses. The deactivation report says that the DEA had had little if any contact with Meneses since May 11, and that because no active or current investigations required his participation, he was "closed."

#### **4. Continued investigations of Meneses**

In the latter part of 1990 and into 1991, the DEA in the United States opened several more investigations targeting Meneses, based upon informant information, for ongoing drug trafficking activities.

##### **(a) San Francisco Case**

On November 26, 1990, DEA San Francisco agent Stephen Tse debriefed an informant who said that, while he was in Managua, Nicaragua, he was asked by a cocaine trafficker to drive a car with 200 kilograms of cocaine to the United States. The Managua cocaine trafficker claimed in his statements to the informant to be in partnership with Norwin Meneses, who was based in Costa Rica. The trafficker stated that he and Meneses had cocaine warehouses in Managua and Costa Rica. Based on the informant's information, on December 31, 1990, Tse initiated a case targeting Meneses and the Managua trafficker.

According to a report from Tse, on March 19, 1991, he met with W K Williams of the San Francisco FBI. Williams informed Tse that Meneses had been indicted on February 8, 1989 and that the indictment was still under seal. Williams said he was interested in having Meneses arrested and extradited to face the charges in the indictment. Tse told Williams that the DEA Costa Rica office had reported to Tse that Meneses was once an informant for DEA Costa Rica but had not been affiliated with that office for the past three years.<sup>(35)</sup> According to Tse's report, the DEA Costa Rica office told him that it would assist in the apprehension of Meneses, but it did not know his exact whereabouts.

On March 20 and April 5, 1991, Tse discussed the Meneses case with Assistant U.S. Attorney Eric Swenson. According to Tse's report, Swenson told Tse that the indicted case against Meneses was "old and very weak" and that Swenson would like to see Meneses arrested on new drug charges. Furthermore, according to the report, Swenson told Tse the reason for the 1989 indictment was to compel Meneses to cooperate with the FBI. Swenson told us, however, that getting Meneses to cooperate may have been another purpose in FBI agent Hale's mind for seeking the indictment, but that it was not the main reason for it. Rather, the indictment was sought to avoid the statute of limitations issue and to preserve the ability to prosecute Meneses if he ever returned to the United States.<sup>(36)</sup>

On April 30, Tse and FBI agent Williams debriefed the informant again and instructed him to return to

Nicaragua and accept the offer from the Managua cocaine trafficker to transport cocaine to the United States. The informant returned to Nicaragua but Tse had difficulty contacting him there.

## **(b) Guatemala Case**

On September 6, 1991 a different "walk-in" informant came into the Guatemala DEA office and told DEA agent Torrey Shutes that the informant was driving a car packed with cocaine from Managua to Houston, Texas, for Norwin Meneses and Enrique Miranda. The informant said that Miranda had recruited him for the job. Miranda had told the informant that Miranda and Meneses had a warehouse in Managua with one thousand kilograms of cocaine. Miranda instructed the informant that after delivery of the cocaine to the United States, the informant would receive money to buy a Mercedes Benz to drive back to Nicaragua, and that if the trip was successful, the informant would be set up in a business in Houston to launder money.

The DEA agents in Guatemala searched the informant's vehicle and removed cocaine from the panels. The informant drove the car to Houston, where he contacted DEA agents. He then called Miranda, who instructed the informant to drive to Los Angeles to deliver the cocaine. When the informant arrived in Los Angeles, DEA agents staged a traffic accident to allow the informant to continue to work in the Meneses operation. The informant returned to Managua, at the direction of the DEA, to gather additional information on Miranda and Meneses.

As a result of this informant's information, DEA cases were opened in Guatemala, Houston, and Los Angeles targeting Meneses, Miranda, and their organization. However, although the informant maintained contact with the Guatemala DEA for several weeks after his return to Nicaragua, the DEA then lost touch with him.

## **5. Meneses' contact with Costa Rica DEA in 1991**

In late 1991, Meneses again contacted the DEA in Costa Rica. An FBI cable stated that on September 23, 1991, DEA Costa Rica Country Attache Ron Lard reported to the FBI Legat in Mexico City that Meneses had recently contacted the DEA Costa Rica office and offered to work with the DEA in a large cocaine smuggling case in which he could provide information. Lard told the Legat that he knew Meneses was an FBI fugitive, so Lard wanted to check "on how badly the FBI wanted him and if his case was significant." Lard advised that Meneses was believed to be in Guatemala at the time. The FBI Legat provided Lard with the name of the case agent on the Meneses indictment (W K Williams), and Lard said he would contact the case agent directly. According to the cable, Lard did not describe for the Legat the cocaine operation to which Meneses referred or what the DEA intended to do with this information.

According to a later cable, two days later the FBI Mexico City Legat telephoned FBI Agent Williams, the case agent in San Francisco, and advised him of the contact by Meneses. Williams asked for more information about the details of Meneses' activities and the information Meneses provided.

A DEA agent in Costa Rica during this time, Federico Villarreal, told the OIG that he remembered that his supervisor, Ron Lard, asked him to talk to Norwin Meneses when Villarreal went to Nicaragua on assignment, attempting to establish a relationship with the Nicaraguan police. Villarreal said he thought that Meneses had either called Lard or had sent a message to Lard that Meneses wanted to talk to a DEA agent. Villarreal told the OIG that he was not aware that Meneses was under indictment in San Francisco until after Meneses was arrested by Nicaraguan authorities later in 1991.

Villarreal said he reviewed Meneses' DEA Costa Rica file, then met Meneses two or three times in a Managua residential area. Villarreal said he did not now recall the specifics of the meetings. He vaguely recalled that Meneses mentioned a group of Colombians with whom he was working. Villarreal recalled that Meneses' information was not very specific and did not require immediate attention. Villarreal said he probably did a file search on some of the names Meneses provided.

Villarreal could not recall if he reestablished Meneses as an informant. The OIG could find no report of investigation in DEA files reactivating Meneses as an informant or any report of Villarreal's meetings with Meneses. According to DEA records, Meneses was not paid any money for this information.

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33. According to the debriefing report, when Meneses met with Blandon in Miami he was accompanied by an undercover DEA agent. Meneses suspected that Blandon may have guessed the identity of the undercover DEA agent and informed the target in Los Angeles that Meneses was working with the police.

34. This was not entirely accurate, since Meneses had been deactivated as an informant in December 1989. Lard told us he was not aware of this when he spoke to the Assistant Legat.

35. Again, this information was not accurate, since Meneses had been deactivated less than a year before.

36. FBI special agent Gibler also told the OIG that the FBI did not plan to use the indictment as leverage to get Meneses to cooperate. He said that the FBI did not need Meneses' cooperation and did not need him to testify against anyone else. Gibler said the FBI may have considered not indicting Meneses if he had been willing to cooperate and had also been willing to plead to the drug charges.

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## **J. Meneses' 1991 Arrest in Nicaragua**

On November 3, 1991, the Nicaraguan National Police (NNP) arrested Norwin Meneses, Enrique Miranda, and three others for drug trafficking in Managua. At the time of arrest, the police seized approximately 764 kilograms of cocaine and one kilogram of heroin as it was being loaded into cars and trucks for transport to the United States. According to a 1996 newspaper report, this was one of the biggest drug seizures in Nicaraguan history.

The Nicaraguan police reported to the DEA after the arrest that the drug trafficking organization, led by Meneses, had received a large shipment of cocaine from a Colombian organization, had stored it temporarily in Managua, and had loaded it into vehicles for shipment to the United States. Thirty to forty kilos of cocaine had already been loaded into one Mercedes, hidden in plastic pipes concealed in the rocker panels and a gas tank, and more cocaine inside plastic pipes was being loaded into the framework of a car transport truck. The destination was believed to be either Texas or California.

According to a DEA report from Costa Rica, on August 16, 1992, Meneses was convicted and sentenced to 300 months (25 years) in Nicaraguan prison. Enrique Miranda received 168 months.<sup>(37)</sup> Several other defendants received lesser sentences and two were acquitted.

In April 1997, when we interviewed Meneses in the Nicaraguan prison, his attorney stated that although Meneses was originally sentenced to 25 years, this sentence was reduced to 12 ½ years and was still under appeal. Meneses told us that he has earned four and a half years of "good time." According to the U.S. Embassy in Nicaragua, Meneses was released on November 14, 1997.

When we interviewed him in prison, Meneses told the OIG that he has never been a drug dealer or been involved in drug trafficking. Meneses said he was "set up" by the Sandinistas, who advised drug traffickers to say they were part of the Meneses drug organization if they were arrested. Meneses claimed he is currently in prison because Enrique Miranda accused him of drug dealing and that everyone knows that Miranda is a drug dealer.

## **K. Allegation that DEA Attempted to Use Meneses Against the Sandinistas**

In an article on October 4, 1996, The Washington Post reported that Nicaraguan officials believed that the DEA sent Meneses to Nicaragua as an informant to "implicate senior Sandinista officials in drug trafficking" and that DEA "washed its hands of him when he got caught trafficking in drugs himself." The article stated that the Nicaraguan police had witnessed a meeting between Meneses and DEA agent Villarreal before Meneses' arrest, but Villarreal had denied to the police that he knew Meneses and denied that he was an informant.

According to Villarreal and Lard, the DEA did not send Meneses to Nicaragua to target the Sandinistas. As we described above, they stated that Meneses contacted the DEA office in Costa Rica, and in

September 1991, Villarreal met with him in Managua. Villarreal told us that at the same time he was meeting with Meneses, he was establishing contacts with the Sandinista national police in order to work drug cases with them. He recalled one meeting in which a policeman asked if Villarreal had had contact with Meneses. Villarreal said he responded "no" because he did not believe he knew the police well enough to share that information. Villarreal stated that the Nicaraguan police did not inform him that Meneses was a target of their investigation. A short time later, the Nicaraguans arrested Meneses.

Villarreal said Meneses had not told him that he was involved in drug trafficking, and he denied that Meneses was used to target the Sandinistas. Villarreal said he suspects that Meneses was trying to protect himself by being able to say he was still working for the DEA.

## **L. Status of 1989 indictment**

The San Francisco indictment of Meneses remains open, although it is now unsealed.<sup>(38)</sup> Shortly after the arrest of Meneses in Nicaragua, FBI Agent Williams in San Francisco informed the FBI Legat, Mexico City, about Meneses' arrest. Williams wrote that he would work with the San Francisco United States Attorney's Office to obtain an international arrest warrant for Meneses and to explore the possibility of extradition, depending on the result of Meneses' case in Nicaragua.

San Francisco FBI Agent Gordon Gibler told the OIG that, despite Meneses' conviction in Nicaragua, the U.S. Attorney's Office did not want to dismiss the 1989 indictment. He said the FBI considered placing an extradition hold on Meneses, but did not because of his lengthy sentence of 25 years.

Several notes in the U.S. Attorney's Office file indicate that the Assistant U.S. Attorney handling the case in 1994, Ed Luckel, was aware that Meneses had been sentenced to 25 years in Nicaragua. A note states, "We need to evaluate strength of case and decide whether to keep open to [sic] dismiss in view of Nicaragua sentence." Another note states, "We should dismiss this case which involves very little dope, is very old and is supported by marginal evidence. It is also far less sig[nificant] than the case that resulted in the 25 yr. sent[ence]."

In the latest report we found in the FBI file, on May 25, 1995, an FBI agent summarized the evidence in the Norwin Meneses case and reported that the Assistant U.S. Attorney currently assigned to the case had advised the FBI that the U.S. Attorney's Office was still interested in pursuing the indictment and warrant. But because Meneses was still serving a 25 year prison sentence, the case was placed in pending status.

## **M. Meneses' entries into the United States**

An important question in this case is how Meneses, a suspected drug trafficker who was under investigation by several United States law enforcement agencies, could repeatedly gain entry into and live in the United States. The San Jose Mercury News reported that some Nicaraguan officials expressed astonishment that Meneses could live, enter, and leave the United States without arrest. The articles also

suggested that Meneses entered the United States as a political refugee in 1979 and was given a work permit.

In order to address this issue, the OIG requested all files on Meneses from the DEA, the FBI, the State Department, and the INS, including his INS Alien file (A-file). These files only provide sketchy information, however, and do not show how Meneses entered the United States repeatedly. Moreover, despite our requests to the INS, DEA, and the State Department for all files concerning Meneses' entries into the United States and their extensive efforts to find them, we are not confident that all such files have been identified or located because our knowledge of certain visits Meneses took to the United States are not reflected in the records we obtained.

The files that we reviewed contain the following pieces of information:

-- In February 1968, the Nicaraguan police believed that Meneses had traveled to the United States using a Nicaraguan passport issued in November 1965. The Nicaraguans requested criminal checks by the FBI on Meneses, which revealed that he had an extensive police record in San Francisco, beginning in 1962. The files do not reflect when Meneses first came to San Francisco.

-- In 1976 and 1977, the FBI noted that Meneses traveled to the United States and Mexico using false identities and had also received several visas in his own name to travel to the United States from the American Embassy in Nicaragua. The FBI noted that Meneses' wife, Paula Rosario Zeledon De Meneses, and child were legal residents of the United States.

-- DEA's El Paso Intelligence Center (EPIC) records reflect that a 365-day lookout was placed on Meneses in 1978, based on information from the DEA's Miami office. The remarks accompanying the lookout state: "Info from DEA indicates that subjects may smuggle cocaine into the U.S. concealed in auto or in shipment aboard Lanica or Pan Am airlines."

-- In August 1980, an anonymous tipster called the DEA San Francisco office and stated that Meneses carries passports from four countries (Colombia, Ecuador, Costa Rica and Nicaragua) and that he was currently out of the country, probably in Colombia.

-- The earliest entry in Meneses' Immigration and Naturalization Service (INS) alien file (A-file) was a September 11, 1980, application for admission to the United States, at the port of San Ysidro, California. Meneses was denied admission because he lacked a valid visa. Meneses claimed to be living in Mexico and that he applied for a tourist visa every 60 days there. Meneses withdrew his application for a visa and failed to return to apply for asylum or to request an exclusion hearing.

-- On November 6, 1980, Mariel Baca, Meneses' sister and a naturalized United States citizen, filed a petition for a relative immigrant visa for Meneses, which would have entitled Meneses to permanent resident status. The application stated that Meneses last arrived in the United States "EWI," or "entry without inspection." On January 11, 1981, the petition was approved and forwarded to the United States

Consulate in Mexico City, which was supposed to advise Meneses concerning the issuance of this visa. Since Meneses was then in the United States illegally, the INS notified him by mail that he had to leave the United States in order to obtain the visa. It does not appear, however, that this visa was ever picked up by Meneses. The State Department could not provide any record for us that Meneses received this visa.

-- According to his INS A-file, Meneses was admitted on a B-1 business visa to the United States in Miami on May 19, 1982, and the visa was extended on June 12, 1983 in San Francisco until November 30, 1983.

-- The INS A-file contains a memorandum stating that Meneses applied for admission at the San Ysidro Port of entry on July 30, 1983 and presented an I-94, Record of Arrival and Departure, replacement form, showing an extension of stay until November 30, 1983 but no passport. Meneses claimed he left his passport and visa in the United States and had gone to the Mexican immigration office at the Tijuana port of entry, where he was denied admission into Mexico. Meneses was searched, however, and his passport was found on his person. Immigration inspectors determined that Meneses had been traveling in Central America for about one month. Because Meneses did not have a valid visa for the United States, he was refused entry and sent back to Mexico.

-- According to records in his A-file, Meneses obtained Costa Rican identity papers in December 1986 that stated that he was then a resident of Costa Rica. As noted previously (see Chapter II, section G), in December 1986, Meneses came to the United States, along with a DEA confidential informant in connection with a DEA investigation. The DEA's Costa Rica files indicate that Meneses submitted his own application for a visa covering this trip.

-- In September 1987, Meneses traveled from Costa Rica to the United States with a United States visa to work in a DEA undercover operation. In August 1987, when Meneses applied for a tourist visa at the American Embassy in Costa Rica to come to the United States for this trip, the Embassy requested an indices check on Meneses because of information in the State Department's computer records suggesting that Meneses was suspected of drug dealing. This information had recently been entered into the State Department records as a result of a large data transfer from the DEA. The State Department informed the Embassy of the new information in its records concerning Meneses. The Embassy also received information from another agency that Meneses reportedly had been a narcotics kingpin in Nicaragua prior to the fall of Somoza and that he was involved in drug activities in Costa Rica. The DEA requested that Meneses should nevertheless receive a waiver for the visa -- that is, receive a waiver from visa ineligibility because of these reports of drug trafficking activities. The Consul General in Costa Rica and the INS Officer in Charge in Mexico City approved the DEA's request for a waiver, adding that Meneses had not received any other waivers previously. On September 19, 1987, Meneses traveled on this visa to the United States.

-- In November 1987, a second waiver for the issuance of a 45-day visa was requested and received by DEA, and Meneses again entered the United States to work on DEA investigations.



-- On July 6, 1988, Meneses obtained a tourist or business class multiple entry visa good for three months from the U.S. Consulate in Costa Rica. He was admitted to the United States in Miami on July 7, 1988. He obtained another visa on July 18, 1988 from the Salvadoran Consulate in Miami, but the date concerning the length of the visa was not completed. Meneses left Miami and was readmitted on July 30, 1988. Although the files do not so indicate, it is likely that this visa was issued at the request of DEA, because Meneses was again traveling to the United States during this period in connection with his informant work for the DEA.

-- In September 1988, Meneses traveled from Costa Rica to Miami, without notifying the DEA. He was stopped by the INS as a result of a lookout posted in its National Automated Immigration Lookout System (NAILS). The lookout system showed that Meneses was inadmissible because he was believed to be a drug trafficker. When he was stopped, Meneses claimed to be working for DEA, but the INS could not verify this, so it released him but ordered him to appear for a deferred inspection on September 14, 1988. After Meneses was released, his DEA contact, Raul Delgado, was contacted by the INS. Delgado told the INS that Meneses was not assisting him on this trip and the DEA had not expected him to enter the United States. Delgado therefore told the INS that Meneses should be set up for an exclusion hearing.

On September 14, 1988, Meneses returned to Miami for his inspection and INS ruled that he had obtained his non-immigrant visa with the help of DEA but had failed to assist them as agreed. INS declared Meneses was not a bona-fide non-immigrant. He withdrew his application for admission and agreed to leave the country.

Delgado told the OIG that although Meneses was assisting in drug investigations in Miami, and had come to Miami in July 1988, Delgado was not expecting Meneses in September. Therefore, when INS called Delgado, he refused to help Meneses. Delgado did not go to the airport and had no contact with Meneses at this time. Delgado believes he called the Costa Rica DEA office to report this incident and that office agreed with Delgado's refusal to assist Meneses. Delgado said the DEA suspected Meneses may have been trying to work a drug deal on his own.

-- As noted above (see section I), Meneses again entered the United States in May 1989 to work on a DEA undercover case targeting money laundering and cocaine smuggling in Miami and Los Angeles. The DEA arranged for him to get a visa for this trip. He remained in the United States until August 1989, when he returned to Costa Rica.

This 1989 trip was the last one for which we located any information in INS, DEA, or State Department files.

Information from informants also suggests that Meneses traveled into and out of the United States far more frequently than his Alien file would indicate, likely under falsified, borrowed, or stolen passports. One informant told us that Meneses was able to go in and out of the United States because he had a number of different passports, mostly Mexican passports. This informant believed that Meneses

purchased the Mexican diplomatic passports with fictitious names from a Los Angeles Mercedes Benz car dealership.

Another informant told us that Meneses once showed him some blank Nicaraguan passports that Meneses said he had printed in Tijuana. The informant said that years later he came to doubt this claim and thought the passports were real and had come from the Nicaraguan government. Another informant told the DEA in 1987 that Meneses was once the designated consul for Nicaragua in San Francisco and therefore could secure travel documents and passport stamps.

In 1977, the FBI office in Mexico City reported that, according to the Nicaraguan police, Meneses had a Nicaraguan passport in someone else's name, which he used to travel to the United States and Mexico. According to the police, he also had a United States permanent residence green card in his brother's name. In 1984, an FBI source reported that Meneses had attempted to enter the United States through New Orleans or Miami, was turned away, then flew to Tijuana and entered the United States by land "possibly using one of the many green cards or passports he reportedly has."

In addition, we found in the DEA Costa Rica files a Costa Rican passport Gonzalez had seized from Meneses in 1987, with his photograph and various visa stamps, including a visa stamp for the United States in 1983. The file contained a handwritten note from Gonzalez stating that Meneses claimed he bought the passport so he could travel to the United States, although he never used it. Gonzalez told us that he remembered taking the passport from Meneses and also Meneses' claim that he had not used it, but Gonzalez said he did not know if Meneses was telling the truth about it.

According to the [San Jose Mercury News](#) articles, Meneses "was welcomed into the United States in July 1979 as a political refugee and given a visa and a work permit." When we questioned the INS about this claim, we were told that the INS has no record that Meneses ever applied for or received political asylum or had ever been admitted to the United States as a refugee. INS also said that it had no record of Meneses applying for or receiving any work permit.<sup>(39)</sup>

In our interview with him, Meneses did not provide answers as to how he entered the United States so frequently. He stated that often when he traveled to the United States, he would be stopped at the border and questioned because of a lookout in INS computers, but he would then be allowed to enter after a few hours of questioning.

In sum, it is difficult to determine how Meneses was able to come and go from the United States as frequently as he did. Until 1987, he could enter legally as a tourist. After that, he sometimes worked as an informant for the DEA, and he came using visas arranged by the DEA. At other times, he came on his own, probably with fraudulent travel papers.

## **N. Conclusions Regarding Investigation of Meneses**

The evidence we found showed that Meneses was a large-scale drug trafficker who was pursued by

various federal investigations for many years, but none of these cases resulted in his arrest or prosecution. We found several causes for this lack of success, but like in the Blandon case, we did not find that it was a result of any pressure from the CIA, any national security agency, or any other federal entity in Washington. Rather, the failure seems attributable to insufficient resources devoted to a targeted effort against Meneses, problems of communication and coordination among law enforcement offices, and a vacillation as to whether Meneses should be considered a target or an informant.

First, none of the numerous investigations involving Meneses that we reviewed contained any suggestion that they should be altered or closed for political considerations, and no witness provided any evidence of such actions.

Second, as recognized by Sandra Smith, the first DEA agent who investigated Meneses, any investigation of Meneses would be large and complex, involving various offices and agencies in different countries, and it required a coordinated approach. The DEA and FBI in the United States pursued Meneses in many separate investigations for ten years, from the late 1970s to 1991 when he was arrested in Nicaragua, but the United States authorities did not develop a concerted, coordinated effort. In the one task force case involving Meneses, the 1986-87 Los Angeles OCDETF case, Meneses was originally a target but then considered an informant, and the case was closed after he refused to cooperate. The FBI later proceeded against Meneses, indicting him in 1989 mainly to avoid a statute of limitations bar, but this effort was not coordinated or comprehensive.

Nor was there sufficient coordination or analysis when Meneses first offered to cooperate with the DEA in Costa Rica in 1986. All the entities involved in investigating him should have considered whether he should be used as an informant or targeted as a defendant. While a meeting was suggested for all the offices with an interest in Meneses -- the Costa Rica DEA Office, the Los Angeles and San Francisco FBI, DEA, and United States Attorney's Offices, as well as a representative from DEA Headquarters -- such a meeting never occurred, and it does not appear that a consistent approach to Meneses was ever developed. The DEA Costa Rica office considered him a valuable source of information against international drug traffickers, while the United States Attorney's Offices, the FBI, and the DEA in the United States continued its investigation and pursuit of him in the United States, with varying degrees of vigor. Thus, at the same time he was the subject of the FBI investigation and even the subject of a 1989 indictment, he was traveling in the United States on behalf of the DEA. The evidence shows that the coordination and communication between the FBI and the DEA during this period was lacking. This was a critical problem, especially because Meneses was so mobile and moved between countries easily.

However, we did not find that any of the actions in these cases were taken for improper purposes, as a result of political considerations, or with the influence of the CIA or other national security entities. Although some rumor and speculation surfaced that Meneses worked for the CIA, largely fueled by his own bragging, there was no evidence that this was true. Moreover, every time the CIA was queried, it denied any affiliation, and before Meneses was indicted, the CIA said it had no objection to his prosecution. In addition, we find it unlikely that the investigation of Meneses was altered by political considerations, because the evidence known to the law enforcement authorities who were investigating him suggested that he had ties to the Sandinistas as well as the Contras. Had political considerations

been applied to this case, it is just as likely that a prosecution of him would have been encouraged, to expose Sandinista drug trafficking, rather than discouraged because of ties to the Contras. But we found no evidence of influence either way.

In short, the investigation of Meneses failed because of inadequate resources devoted to this case and inadequate coordination between law enforcement agencies, which are recurring law enforcement issues not unique to the cases of Meneses, Blandon, or the others that we examined in this review.

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37. For a description of Miranda and what happened to him, see Chapter VII below.

38. In 1996, a copy of the sealed indictment was placed on the Internet by the San Jose Mercury News. The article stated that the newspaper found the indictment and arrest warrant in Nicaragua. According to Swenson, the indictment was sent to the Nicaraguan authorities, who used it in their attempt to deny Meneses bail after his arrest. The indictment therefore became a public record in Nicaragua. On August 4, 1997, the U.S. District Court for the Northern District of California ordered it unsealed.

39. While we found nothing to indicate that Meneses had been a refugee seeking political asylum, we found that Blandon was. Blandon stated in grand jury testimony in 1994, which was posted on the San Jose Mercury News website, that he had come to the United States as a refugee seeking political asylum. The Mercury News articles may have simply confused Blandon's statement with Meneses.

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## **Chapter IV: OIG Analysis of Allegations Regarding Blandon's and Meneses' Relationship with the Contras and the CIA**

As the evidence we discussed in the previous chapters plainly demonstrates, Danilo Blandon and Norwin Meneses were large-scale drug dealers who supplied massive amounts of cocaine to buyers in the United States. They also both were Contra supporters, although, according to information in DOJ files, their financial contributions to the Contras were not large and were less than the suggestions made in the San Jose Mercury News articles. They were members of local branches of the FDN whose job it was to rally support for the Contras from fellow exiled Nicaraguans. Both gave some contributions to the Contras, in the way any successful exiled businessman might -- only in this case, their successful businesses were cocaine distribution networks.

The Mercury News series alleged not only that Blandon and Meneses were selling drugs for the Contras, but that DOJ, though aware of their trafficking, actively encouraged or, at a minimum, ignored it because the proceeds were going to the Contra movement. The articles also suggested that they had ties to the CIA. This report cannot make definitive findings about whether Blandon and Meneses sold drugs for the Contras or how much they contributed to the Contras. The focus of our investigation was on the activities of DOJ agencies and their employees concerning the investigation and prosecution of Blandon and Meneses, and whether those investigations and prosecutive actions were influenced by any affiliations with the Contras or the CIA. As discussed in the previous two chapters, despite an exhaustive review of the available documents and scores of interviews with relevant witnesses, we did not find any such influence on DOJ actions. This section summarizes what the OIG has learned through our interviews and review of DOJ files concerning the alleged connections of Blandon and Meneses to the Contras or the CIA.

We first examine some of the main sources of information that have given rise to many of the allegations regarding Blandon, Meneses, the Contras, and the CIA. These are: (1) the documents seized by the LASD during their 1986 searches; (2) a statement made by Blandon while testifying before a federal grand jury in 1994; (3) statements collected by law enforcement during the 1980s; and (4) allegations made by various individuals in the press and elsewhere.

The section then recounts the relevant information that we gathered in the course of our investigation about the alleged "Contra connection." We recognize that this information is not conclusive and, in some respects, raises more questions while answering others. However, we believe that it provides important information on the incendiary issue of Blandon's and Meneses' relationships to the Contras and the CIA.

### **A. OIG Review of Sources of Allegations**

#### **1. Defense Arguments in Los Angeles Big Spender Case**

The San Jose Mercury News alleged in an article on September 29, 1996, that sealed records in the 1990

corruption trial against former Los Angeles Deputy Sheriff Daniel Garner "may hold the key to unlocking the truth behind the relationship of the CIA and the Contras to the emergence of crack cocaine in black neighborhoods." The article further stated that a legal motion filed in that case "indicates that the drug ring of former Nicaraguan government official Danilo Bandon was connected to the Central Intelligence Agency and efforts to launder drug money to finance anti-communist Nicaraguan rebels."

It has been alleged that the government attempted to suppress the information in the defense motion by filing various motions with the court. We found no support for this allegation. The prosecutors filed these motions about alleged CIA involvement with Bandon's organization, not because it had any such information, but because of the irrelevance of the defense allegations to the prosecution and the concern that the issue would confuse the jury. The facts surrounding the government's actions are as follows:

In 1990, Assistant U.S. Attorney Jeffrey Eglash prosecuted the first case against Los Angeles deputy sheriffs for corruption as part of the "Big Spender" cases. Deputy sheriffs were alleged to have routinely stolen money when arresting individuals or serving search warrants. In addition, the sheriffs were accused of using excessive force, perjury, and planting drugs. In the first "Big Spender" trial, defense attorney Harland Braun raised the allegation of CIA involvement in laundering drug money. Shortly thereafter, the government filed a motion for a restraining order regarding extrajudicial statements of the parties. The government argued that Braun had made improper and prejudicial statements to the media during the trial, including statements by Braun that his client would testify that the government laundered drug profits which were diverted by the CIA to the Nicaraguan Contras and to Iran.

The government also responded to Braun's claim by filing a motion in limine to exclude any attempt to raise at trial issues relating to the CIA and the Nicaraguan Contras. The government argued that the allegations were totally irrelevant to the issues in the case, were outside the time period of the conspiracy charged in the indictment, would be nothing more than a "smokescreen" to divert the jury's attention from the real issues, and were a waste of time. Assistant U.S. Attorney Eglash told the OIG that he believed that the allegations were an example of another far-fetched claim thrown up by Braun to divert attention from the real issues in the corruption trial. According to Eglash, the defense would "throw up anything to see what would stick." Eglash called the claim "one in a series of fantastic claims that had been raised by the sheriffs' defense" that lacked any apparent basis.

At a hearing held on the government's motion for a restraining order, the court discussed Braun's attempt to introduce such issues at trial:

I suspect it was filed by counsel in bad faith as an effort to get into the public media an argument that you have discussed before and perhaps prior to the time that the court might issue a restraining order. . . . Even if everything you have said in this document is true, it has nothing to do with whether or not your client filed a false income tax return or whether or not he was stealing money and making purchases with the money that was stolen, that is, what the CIA or the Government did has nothing to do with that so far as I can see. I cannot conceive of any theory under which that evidence would be admissible

in this case, and therefore, putting this information out in the guise of an Opposition to a Restraining Order simply to ensure that it gets into the public print and perhaps might contaminate this case or create undue prejudice -- frankly I am disappointed in you, Mr. Braun. . . . Because I think this diminishes your stature as an attorney and certainly this court has respect for your skill as a professional attorney but this is very unprofessional.

The court found that Braun's arguments "manifest[ed] a continuing intention to use the media to make statements in the public with the media which violate[s] the American Bar Association Model Rules of Professional Conduct. . . ." and excluded any reference at trial, or further public comment, about the CIA/Contra issue.

## **2. OIG Review of Records Seized During 1986 Search of Blandon's Residence**

As noted above, the OIG reviewed the files seized by the LASD and copied by the FBI in the 1986 searches of Blandon's residence. Among the documents seized from Blandon's house were records that appeared to reflect deposits in seven bank accounts. The documents listed the check, endorser, location, amount, and balance. Some of these deposits were marked "U.S. Treasury/State" and totaled approximately \$9,000,000. Other deposits were marked Cayman Islands and totaled about \$883,000.

Among these records was a handwritten note in Spanish, which was later translated to read:

Little brother:

These are the bank statements of the suppliers of the Contra. They have issued checks to different persons and companies, the same to the Cayman Islands.

These are just one part and is the continuation of the report you have.

(I'll later send you the rest so you can laugh.)

The photocopier is really bad again, many thanks.

Blessings,

Leysla

When we interviewed Blandon and asked him about these documents, he laughed and said that the Spanish letter was from his sister, "Leysla Balladares." He stated that his sister obtained the documents from the records of a United States Congressional investigation and had sent them to him. She believed that the records showed that the Contra supporters were stealing from the funds designated for the Contras and putting the money into their own pockets. Blandon said "we were fighting for something that is good and they [Contras] were making money for that." Blandon said that the records were not his

and he only had them because his sister thought he would be interested in them.

We interviewed Blandon's sister, Leysla Balladares, about the letter. Balladares stated that she sent the letter to Danilo Blandon, her younger brother, sometime in the 1980s, along with copies of bank records showing deposits to different accounts. She stated that she had received the documents from her friend, Doctor Aureliano Rugama, before he was killed in Honduras while serving with the Contras. Balladares did not know where Rugama got the documents but said he gave her documents that he thought would be of interest to her regarding the Contras.

Balladares stated that when she reviewed the documents sent to her by Rugama, she noticed what she believed to be the names of two or three persons whom she thought were Contras. She opined that it appeared from the bank records that some of the money that was supposed to be going to the Contras had instead been deposited into their accounts. Balladares sent the documents to her brother, Danilo Blandon, to show him how some Contras were misusing funds, perhaps laundering the money in the Cayman Islands. She stated that she wrote in the letter that she would send more of the records later "so you can laugh" because she felt that Blandon would be amused at the level of corruption of some of the Contras. Balladares could not recall if she later sent Blandon other documents. Balladares said she no longer has the original copies of the bank records and could provide no other details on where they came from. Balladares could not recall if Rugama had told her that the records were from a Congressional investigation, as her brother claimed. Balladares also stated that she was not aware that her brother was a drug dealer or the nature of his relationship to the Contras. She stated that she loves her brother, but knows that he has made some "mistakes."

Balladares added that she was a member of the FDN, but that her only involvement was assisting in the humanitarian effort. She explained that she did participate in "fundraising" in San Francisco, but her group never raised huge amounts of money. Her fundraising activities consisted of small contributions or donations of items which were then raffled to raise small amounts of money. She said that to her knowledge all money raised by her group was used to purchase clothing, supplies, and household items for donation to needy Nicaraguan families, and to pay the travel expenses and freight costs of transporting those items by airplane from San Francisco to Nicaragua. Balladares made two trips to Honduras, both with the purpose of transporting supplies and household goods for the humanitarian effort.

Aside from the bank records, the papers seized from Blandon's home and business included various financial and other records, including bank records, car sale records, tax records, miscellaneous correspondence, and calendar and phone records. The financial records do not evidence any large monetary transactions. Nor do the telephone records reflect a significant number of international calls, although the Rolodex from Blandon's car dealership lists a number for Eden Pastora in Costa Rica. Blandon admitted that Pastora was a friend of his and that he gave support to Pastora, but Blandon claimed to us that Pastora did not know that Blandon was a drug dealer until recently.

In sum, these records do not appear to contain any information that ties Blandon's drug dealing to the



Contras. Moreover, nothing in these documents suggests that Blandon was associated in any way with the CIA.

### **3. Allegation that Blandon Alluded to CIA Involvement in 1994 Grand Jury Testimony in San Francisco**

From records posted on the Internet by the San Jose Mercury News, and from the OIG's interview of Blandon, it is clear that Blandon testified in a federal grand jury in San Francisco on February 3, 1994, in a case involving Roger Meneses, Norwin Meneses' nephew.<sup>(40)</sup> The San Jose Mercury News reported that Blandon "implied that his cocaine sales were, for a time, CIA-approved." However, although Blandon's statements were subject to misunderstanding because of the way he expressed himself, they do not support the conclusion that Blandon's drug dealing was approved by the CIA.

In his testimony before the grand jury, Blandon outlined how he became involved with Norwin Meneses and raised money for the Contras through cocaine trafficking. Much has been made about one comment by Blandon in the course of that testimony. Blandon testified:

Q: Okay. Now, how did you progress in the business? You started off with two or three keys [kilograms of cocaine]. Then what happened?

A: Yes. In the beginning I start doing just because the Contra, because I was working and selling cars.

Q: That was your legitimate job?

A: Yes, my legitimate job. So after that, in 1983, okay, the Contra gets a lot of money from the United States, and they were -- when Reagan get in power, Mr. Reagan get in the power, we start receiving a lot of money. And the people that was in charge, it was the CIA, so they didn't want to raise any money because they have, they had the money that they wanted.

Q: From the government?

A: Yes, for the Contra revolution.

Blandon told OIG investigators that two years after President Reagan's election, the Contras received \$19 million from the United States government.<sup>(41)</sup> Blandon stated: "At that time [Colonel Enrique Bermudez] comes to us and tell us 'the train is running' and the Cheles [Central American slang meaning white people -- like 'gringos'] doesn't want nothing, that we collect no money from nobody."

When we questioned Blandon about this statement, and the interpretation that his statement meant that the CIA did not want Blandon to sell drugs anymore, he said that he was simply stating that the CIA

controlled the money that went to the Contras from the United States and denied that he was talking about drugs at all in this statement. Asked if he had any specific information that the CIA was controlling money to the Contras, Bandon said he had been told that the "Cheles" were running things. Several times in the interview, Bandon, whose English was difficult to understand, used the terms "Cheles," "U.S. Government," and "CIA" interchangeably. But he stated emphatically that his comment was not meant to imply that the CIA had any control over or knowledge of his drug trafficking activities on behalf of the Contras, and the language of his testimony appears to support his claim.

#### **4. Information Recorded by Law Enforcement Authorities**

In reviewing FBI and DEA files related to the Bandon and Meneses organizations, the OIG found some references to the Contras and the CIA. The following is an analysis of the information we found in various FBI and DEA files.

##### **a. Claims by Ivan Torres**

As noted above, as part of a DEA undercover operation, Meneses and a DEA informant, DEA CI-1, met with Bandon and Ivan Torres in Los Angeles in January 1987. According to DEA CI-1, Torres said that he had received counterintelligence training from the CIA, and said that the CIA "looks the other way and in essence allows them (Contras) to engage in narcotics trafficking as long as it is done outside the United States." Torres was also reported to have stated that he was in contact with FBI and CIA representatives as a result of his involvement with the Fuerza Democratico Nicaraguense (FDN), and that the CIA had trained him in San Bernadino, California, in an area made to resemble Nicaraguan terrain.

In response to our request for records, the CIA OIG reported to us that it found no record that the CIA had any relationship with Ivan Torres. We interviewed Ivan Torres directly about this allegation and other issues. He described his background and his ties to the FDN, as well as his relationship to Bandon. When asked about ties to the CIA, however, he denied having any.

Torres was asked about the FDN's alleged ties to the CIA. He replied that he used to joke about the CIA's power. He and his associates would say that their collective actions were irrelevant, because the political parties would change when the CIA decided they would. Torres stated, however, that he never met with or saw anyone associated with the CIA and has received no CIA training. According to Torres, he knows nothing about CIA involvement with the Contras or the FDN whatsoever.

When asked if he, Bandon or Meneses had ever claimed affiliation with the CIA, Torres stated that he recalled a meeting at a restaurant with Bandon, Meneses, and a third man who was Meneses' friend. Torres said he thinks he may have said that the CIA was helping the local Contra group, but it was "bullshit." Everyone went along with the joke. He said everything that was said about the CIA was a joke. He said they were trying to impress DEA CI-1, whom Bandon thought was an informant.

## **b. DEA Suspicion of Meneses' Ties to CIA**

As discussed in the chapter on Meneses, an agent in the San Francisco DEA office told the OIG that after the arrest of Jairo Meneses in 1984, the agent had attempted to get Jairo to cooperate against Norwin Meneses. Jairo Meneses had refused, but suggested that Norwin would work with the DEA. The agent said he later met with Norwin Meneses in an effort to get his cooperation, but Norwin Meneses denied being a drug dealer and said he was only interested in "getting his country back." Although Meneses was "pretty cryptic" about what he was doing to this end, the agent said he had the "impression" that Meneses was moving guns for the Contras. The agent said he also suspected Meneses' involvement with the CIA because of Meneses' claimed ties to the Contras. But when the agent contacted the CIA in San Francisco, it denied having any connection to Meneses.

## **c. FBI Suspicion of Meneses' Ties to CIA**

As discussed in the chapter on Meneses, the FBI queried the CIA as to whether it had any relationship to Meneses, Blandon, or Lister after the October 1986 LASD search of Blandon's and Lister's properties. The CIA denied any relationship with any of these men, but reported that it had information that Meneses was involved in drug activities in Costa Rica and was known as a drug trafficker in Nicaragua prior to the fall of Somoza.

In the spring of 1988, based on reports from informants that Meneses may have been connected to the CIA, the San Francisco office of the FBI asked FBI Headquarters to inquire whether Meneses had any relationship to the CIA. On April 15, 1988, FBI Headquarters informed FBI San Francisco that the General Counsel's Office of the CIA had reported that a search of CIA files and indices located no information indicating that Meneses was ever employed by, or was an informant for, the CIA, and that the CIA did not have any objections or problems with a prosecution of Meneses.

W. Gordon Gibler, FBI Supervisory Special Agent in San Francisco, told the OIG that he worked on the case against the entire Meneses organization, which included Norwin, Guillermo, Omar, and Tony Meneses. Gibler said he had heard that the members of the group, including Jairo Meneses and Renato Pena, were active Contra supporters. Gibler heard unsubstantiated rumors that the Meneses organization was sending money to support the Contras, but he said that he felt they were all selling drugs for money for themselves and not for the Contra cause. Gibler said that he also heard rumors that Meneses was working with the CIA. Gibler said he never received any additional intelligence information about the selling of cocaine to benefit the Contras.

## **5. Allegations from Other Sources**

### **a. Allegations by OIG Source-1 and Rafael Cornejo**

OIG Source-1, who requested anonymity, told the OIG that she is the person who gave Gary Webb the background information for his series in the San Jose Mercury News.<sup>(42)</sup> OIG Source-1 said that she

grew up with Rafael Cornejo, Norwin Meneses, and Jaime Meneses in San Francisco. OIG Source-1 stated that the men spoke freely in front of her because she was a young child and they did not think she was listening closely. Although OIG Source-I initially said she has diaries from this time period and would provide copies to the OIG, she later told us that the diaries were with Gary Webb and that she could not provide copies.

OIG Source-1 stated that she believed that Norwin Meneses was the chief supplier of funds for the Contras and that she had overheard Meneses claiming to be in the good graces of the "top people" in the Contras because of his substantial contributions. She said that Adolfo Calero came to the Meneses home "frequently," and that Meneses appeared always to be aware of Calero's schedule. OIG Source-I refused to answer questions about whether she ever saw Calero in the presence of drugs because she said such answers might possibly incriminate her. OIG Source-1 claimed she was aware of "astronomical amounts of cash" going from San Francisco drug dealers to the Contras, and heard Cornejo and others brag about the "bags and bags" of cash sent. OIG Source-1 never heard anyone talk about the purchase of weapons to send to the Contras. OIG Source-1 said that Cornejo, Norwin Meneses, and Jaime Meneses, would talk about how Calero would brag that he was immune from prosecution because he had been a CIA agent since the 1960s. They would comment that "Calero had their back if anything ever happened." She also said that Danilo Blandon frequently came to the Meneses house.

Rafael Cornejo, who was convicted on cocaine trafficking charges in the Northern District of California in 1995 and awaits sentencing, declined to speak with the OIG without a guarantee that his statement would not be used against him in any criminal proceeding, a guarantee that we were not able to provide. When we told Cornejo's attorney that we wished to interview Cornejo about information that OIG Source-1 had provided to us, Cornejo's attorney stated that many of OIG Source-1's allegations were not true and that, if true, they would implicate Cornejo in criminal activity.

We did not find the allegations of OIG Source-I to be credible. Indeed, some were quite fantastic, including a claim that Oliver North, two DEA agents (whose names she would not reveal), and a Bolivian drug lord met on an island and negotiated a plan in which the DEA would oversee the construction of a cocaine processing plant in Bolivia. OIG Source-I stated that, according to convicted drug dealer and federal prisoner Michael Montalvo, the DEA began manufacturing massive quantities of cocaine, which North imported into the United States. OIG Source-1 stated, without providing any support for the claim, that North used \$200 million in seed money from the CIA and later repaid it with his drug profits after he flooded the United States market with cocaine and caused the huge dip in cocaine prices in the mid-1980s. OIG Source-1 recommended that the OIG speak to Cornejo to confirm her allegations. Although, as noted above, Cornejo declined to speak with us, Cornejo never attempted to raise any issue regarding the Contras, the CIA, or Oliver North at his trial.

## **b. Allegations by "David Morrison"**

As discussed in the previous section on Meneses, an American referred to by the pseudonym "David Morrison" in the San Jose Mercury News articles told the OIG that he became involved with the Contra

movement in the fall of 1983 while living in San Francisco and working in real estate development. Morrison was quoted in the San Jose Mercury News as stating that he discovered that "Meneses wasn't just smuggling cocaine for himself. He was also doing it for the FDN, and he was selling them weapons as well, with the knowledge of the FDN's military commander and, it appeared, the tacit approval of the government."

When we interviewed him, Morrison told the OIG a different story. He recalled that, in the summer of 1985, FDN members told him that Meneses had made a \$40,000 donation in 1981 to the Contras for camping equipment and radios. He also recalled being told that Meneses was "playing both sides" because he was trading weapons for cocaine paste from the Sandinistas. Morrison stated that he believed that Gary Webb "got it wrong" because Meneses was just a drug dealer, had no real connection with the Contras, and did not give them any money after his 1981 contribution.

Morrison told the OIG that Meneses was close to Enrique Bermudez and that he had heard a rumor that Bermudez was involved with drugs. Morrison admitted that this was all "hearsay" and that he was not sure if the rumors were of small drug deals by the Contras or of the Contras receiving payments to allow drug planes to refuel in their geographical areas.

### **c. Allegations by Michael Ruppert**

Former Los Angeles Police Officer Michael Ruppert has made allegations that the CIA aided the Contras by allowing them to smuggle large quantities of drugs into the United States. The CIA OIG initially interviewed Ruppert by telephone, and Ruppert said that he had no first-hand knowledge of any cocaine trafficking by the Contras. He said that he had never met Meneses, Blandon or Ricky Ross. Ruppert stated that he had received information from his friend, former DEA SA Celerino Castillo.

Ruppert told the CIA OIG that he was recruited by the CIA when he was in college at UCLA in 1973. Ruppert stated that he was brought to Washington and met with a CIA recruiter who told him that the CIA wanted him to join the Agency and then be "sheep dipped" back to the Los Angeles Police Department (LAPD). Ruppert said he worked for the LAPD from 1973 to 1978 and claimed that he left the force in 1978 because he uncovered a connection between the CIA and narcotics trafficking in California and Louisiana. Ruppert claimed that his former fiancée was a CIA contract employee who helped the CIA smuggle drugs into the United States and participated in a CIA-organized crime narcotics ring. Ruppert also stated that he was aware of a CIA connection to the assassination of Robert Kennedy.

FBI records show that Ruppert met with FBI agents in 1978 and 1980 and reported that he had been forced out of the LAPD and was harassed by that office because of his allegations that the LAPD was involved with officials of the government of the Shah of Iran and the CIA. According to these records, Ruppert reported in 1978 that his problems had begun when he became involved with Nordica Theodora D'Orsay. D'Orsay had claimed to work for an unnamed government agency and claimed to have detailed knowledge of organized crime and the workings of the LAPD. Ruppert came to believe that D'Orsay

worked for the CIA and was planning to overthrow the Shah of Iran.<sup>(43)</sup> According to Ruppert, D'Orsay moved to New Orleans in March 1977 after an attempt on her life, evidenced by a bullet hole in her car. Ruppert later told the FBI he came to believe that D'Orsay had put the bullet hole there herself so she would have an excuse to leave Los Angeles and to prevent Ruppert from finding out who she was and who she worked for.

Ruppert also reported to the FBI that, after some contact with the Organized Crime Intelligence Division of the LAPD, he began receiving "hang-up phone calls" and was "chased" and surveilled, and believed his telephone to be tapped. Ruppert reported that he became an emotional wreck after a chase by an unknown vehicle in Los Angeles. Ruppert said that he resigned in November 1978 because his life was in danger and he did not believe the LAPD could protect him, especially if violence were to break out in Iran.

In April 1980, Ruppert told the FBI that he believed that the DEA Intelligence Center in El Paso, Texas (EPIC) was also involved in the conspiracy. Ruppert reported his suspicions to a high school friend employed as a DEA agent in El Paso, and the friend advised Ruppert to carry a gun at all times. Ruppert took this as an admission that the conspiracy existed and that Ruppert's life was in danger.

The OIG interviewed Ruppert. Ruppert told the OIG that he had no personal information about misconduct by the Department of Justice but had received information from, and given information to, DOJ officials about CIA involvement in drug trafficking.

Ruppert told the OIG that he met with FBI special agent "Buck" Sadler about CIA involvement in drug trafficking and that Sadler had, according to Ruppert, verified Ruppert's suspicions. Ruppert explained that he met with Sadler and another FBI agent and told them his allegations and his theory concerning the CIA involvement in drug trafficking. Ruppert added that his knowledge included the involvement of "big names" like Richard Secord and President Bush. According to Ruppert, Sadler stated "Mr. Ruppert, we think that your theory is extremely plausible," all the while nodding his head in an up-and-down "yes" motion. Ruppert said he assumed, and continues to believe, that Sadler's head-nodding motion was an intentional, non-verbal affirmation of the truth of Ruppert's suspicions. Ruppert also explained that he believes the conversation was being taped, and that Sadler knew it as well, and therefore Sadler, knowing he could not verbally acknowledge the veracity of Ruppert's allegations, had intentionally made the head-nodding motion to let Ruppert know that he was correct.

The OIG interviewed FBI Special Agent Richard "Buck" Sadler, III about Ruppert's allegations. Sadler stated that Ruppert's information about the CIA was nothing more than a "theory" and that he did not find it to be the least bit plausible. Sadler also stated that he did not intend for any nodding of his head to be interpreted as an endorsement of Ruppert's theories.

Ruppert also reported to us that former DEA SAs Celerino Castillo, Edward Heath, and Brad Ayers; U. S. Customs Service agents Ken Brumfield and George Gibson; and former federal public defender John Mattes, told him -- either directly or "indirectly" -- about CIA involvement in drug trafficking. The OIG

was unable to locate former DEA SA Edward Heath or former USCS agent Ken Brumfield. Customs agent George Gibson told the OIG that he went to high school with Ruppert but had never discussed Customs or the CIA with Ruppert. The DEA has no record of any former or current agents named Brad Ayers.

John Mattes was a federal defender assigned to defend Jesus Garcia on a weapons charge in Miami in 1985 resulting from Garcia's involvement in running guns to the Contras. According to Ruppert, Garcia had told Mattes about his involvement with the CIA, and Mattes said he himself had been in houses where weapons were stored "within hours of the drugs having been removed." Ruppert said that Mattes had traced calls made from the houses to George Bush's office. Thereafter, Mattes was threatened and intimidated, and his home burglarized.

When we questioned Mattes about this story, Mattes laughed. Mattes acknowledged knowing Ruppert, but denied the truth of Ruppert's claim. Mattes opined that Ruppert has taken elements and statements from various lectures by Mattes and from books about the Contra revolution, and misrepresented them. Mattes said he did represent defendant Jesus Garcia on weapons charges in 1985. In that case, Garcia claimed that his gun-running was related to the Contras, but neither Garcia nor his codefendants claimed to have been involved with the CIA, as Ruppert alleged. Mattes stated that in the Garcia case he had presented the "Watergate" or "Apparent Authority" defense: that is, he had argued that Garcia believed, based on what he was told by the government informant in the case, that what he was doing was legal because the White House had sanctioned their actions. The jury apparently did not buy into that defense, because Garcia was convicted.

According to Mattes, Garcia had claimed that the Contra infrastructure was comprised of people who were also narcotics traffickers. Although Garcia never specifically alleged that any government agency or agents were directly involved in or had knowledge of narcotics trafficking, he intimated that drug trafficking was taking place at the same time as the gun-running, and that the practice was, in essence, "protected under the cloak of national security." In January 1986, Garcia alleged that in one of the facilities where guns were being stored, unspecified members of the infrastructure were also storing narcotics. That spring, Mattes and his associates traveled to Costa Rica to interview Garcia's "mercenary" counterparts who were imprisoned in La Reforma prison. With only one exception, none of the persons interviewed substantiated Garcia's claim that narcotics were also being trafficked or stored. The one exception, Steve Carr, confirmed that on one occasion he saw an unspecified amount of cocaine (but more than a "personal use" amount) in the gun storage facility described by Garcia.

Based on our review, we believe that while Ruppert communicates his allegations fervently, they have no firm anchor in reality.

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40. The OIG was unable to obtain the original grand jury transcript in this matter, because federal law prevents the disclosure of these grand jury materials to the OIG under the circumstances of this review.

We therefore had to rely on the transcript posted on the Internet.

41. As discussed in Appendix A, beginning in 1983, and until the Boland Amendment took effect and only humanitarian aid for the Contras was approved in 1984, funding for the Contras was administered by the CIA and was capped at \$24 million for fiscal year 1984.

42. OIG Source-1 also complained that the OIG violated her confidentiality during the course of this investigation. When attempting to interview convicted drug trafficker Raphael Cornejo, the OIG informed both Cornejo's attorney and the Assistant U.S. Attorney prosecuting him of the information Cornejo was alleged to have. Both attorneys were informed that this information came from OIG Source-1. The Assistant U.S. Attorney later used some of this information in a court filing, including OIG Source-1's name. This use of her name was not authorized by the OIG, and we requested that the Assistant U.S. Attorney be admonished for using this information without first clearing it with the OIG. The public filing has since been sealed by the court.

43. According to the CIA OIG, there is no record that an individual named Nordica Theodora D'Orsay was associated with the CIA.

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## **B. OIG Investigation Regarding Support of the Contras by Blandon and Meneses**

This section will summarize what the OIG has learned through interviews and a review of reports of DEA debriefings of informants familiar with the Blandon and Meneses drug organizations about the connections between Blandon and Meneses and the Contras. The evidence gathered is conflicting. It is largely drawn from convicted drug dealers with political allegiances, who have little first-hand information. We therefore present it in its raw form, but include the OIG's commentary on the reliability of the information.

### **1. Blandon's Version**

As discussed in Chapter II, above, Blandon was a Contra supporter who was involved with many other expatriate Nicaraguans in organizing local support efforts. Blandon told the OIG that, in 1982, he and Meneses met with Enrique Bermudez in Honduras. Bermudez told them that the only money the Contras were getting came from the Argentine government, and that, in the face of dire financial need, the "end justifies the means." Blandon understood this not as a request by Bermudez to deal in narcotics, but just to get money any way they could. On the way out of Honduras, Blandon was stopped by officials, who found \$100,000 that he had been carrying for Meneses for use in a drug deal. The money was given back to Blandon after someone he knew from the FDN called the Honduran officials and told them that the money was for the Contra revolution, and Blandon gave the money back to Meneses. Blandon said in his interview with us that Meneses did support the FDN in San Francisco, however, spending about \$40,000 on supplies and other expenses on behalf of the Contras during the years that Blandon worked with him.

Blandon told us that the initial profits he and Meneses made in drug trafficking went to the Contras. The Mercury News stated that it was unclear how much money found its way from Blandon to the Contras, but quoted Blandon as testifying that "whatever we were running in L.A., the profit was going to the Contra revolution." This quote is misleading. Blandon testified, and also told us, that the profits from his cocaine sales in Los Angeles only went to the Contras for a short period of time and were not substantial amounts. In 1983, Blandon said he broke with Meneses in a dispute about drug profits.

Blandon stated that in 1983, at a meeting in Fort Lauderdale, Enrique Bermudez told him that the Contras did not need any more money because "the train is running" and the "Cheles" were helping. Although "Cheles" is a Central American slang term for "gringos" or "white people," Blandon said he understood the reference to be to the "CIA" or the United States government.<sup>(44)</sup> Still, Blandon continued to give some material support to the Contra cause. Blandon stated he gave Contra leader Eden Pastora \$9000 intended for the Contras when Pastora came to Los Angeles in 1985 or 1986. Blandon also said he let Pastora live in an investment property he owned in Costa Rica between 1983 or 1984 until 1987. This would have included use of the residence after Pastora left the Contra movement in mid-1986. Blandon said he never told Pastora that the money was drug proceeds, and added: "Pastora didn't know. He didn't want to know because he's smart. He didn't want to know. You know, but don't talk to me, don't tell nothing." As far as Blandon knew, Pastora did not find out that Blandon was a drug dealer

until after Blandon's arrest, and certainly never tried to get Blandon involved in the drug trade.

## 2. Meneses' Version

The OIG interviewed Norwin Meneses in jail in Nicaragua about his involvement with the Contras. He told of collaborating with Enrique Bermudez in support of the Contras. Between 1982 and 1983-84, Meneses' job was to recruit people in California to join the Contras. Thereafter, he purchased supplies and raised money in small amounts from Nicaraguan nationals. Meneses recalled giving some of his own money to the Contras, but not much -- he claimed about \$3,000 between 1982 and 1985 -- and denied that he or anyone else sold drugs for profit for the Contras or that there was any United States government agency involvement in trafficking. Indeed, Meneses denied that he has ever sold drugs, and said he is in jail because of a Sandinista plot.

Meneses said that he and Danilo Blandon grew up together in Nicaragua and are related. After they met again in the United States in 1982, Blandon helped assist the Contras. Although Meneses said he and Blandon traveled to Honduras once to see Manuel Caceres, whom Meneses described as the head of the Contras there, he denied that he was ever asked to buy any weapons for the Contras. Meneses also claimed he was never personally aware that Blandon was dealing drugs. He believed the United States government is "setting Blandon up" and that Blandon is "showing off" with his claims of association with the Contras.

In a June 23, 1986, article in the San Francisco Examiner, reporter Seth Rosenfeld wrote that Norwin Meneses admitted in an interview having been involved in trafficking cocaine for about six months in about 1982. Meneses told Rosenfeld that he had quit dealing in cocaine because a family member "became sick" from using cocaine. The article cites "former FDN members from around the country" as stating that Meneses helped finance at least four Contra functions and sent a truck and video equipment to FDN members in Honduras. Rosenfeld reported that Meneses denied sending any equipment to Honduras and told him only that he allowed FDN members to meet at his home and at his wife's Los Angeles t-shirt factory. Rosenfeld reported that FDN leader Adolfo Calero denied knowledge of any such donations, and that Meneses denied ever working with the FDN or meeting its leaders. Although Meneses denied ever having met Calero (except to shake his hand), Calero told Rosenfeld that he had met with Meneses as many as four times at Contra social events in San Francisco. Calero told Rosenfeld that he was "unfamiliar with [Meneses'] reputation" as a drug smuggler and that if he had known anything, he would have reported it to authorities.

## 3. Contra Leaders

Both Adolfo Calero and Eden Pastora have denied that the Contras were funded by drug money. When interviewed by the OIG in Nicaragua, Calero told the OIG that he was unaware of any alleged involvement in, or prosecution for, drug trafficking by anyone in the Contra organization during his tenure, aside from allegations of occasional personal use of marijuana by troops who came across it growing in the fields.

Calero testified before the SSCI on November 26, 1996, that when he first joined the Contras, they had funding from the United States in the amount of \$14 million. The Contras did not begin fundraising until the United States funds were cut off in 1984; then they raised funds from very wealthy Americans who donated large sums of money.

Calero told the OIG that he was very careful about where he got money. Calero said he never discussed arms procurement with any FDN supporters or local Nicaraguan groups in the United States. It never occurred to him to ask supporters in the United States to help him procure arms or equipment, because he did not think that they would have that knowledge. The FDN purchased their arms from different people, including General Secord, a Miami arms dealer who owned "The Arms Supermarket," Oliver North, and General John Singlaub. Calero personally dealt with North and Secord, in order to avoid problems.

Calero said he never met Danilo Bandon, but he did meet Norwin Meneses as part of a group of Nicaraguans in San Francisco. Calero recalled having no reason to suspect that Meneses might have been involved in criminal activity. Calero had no personal knowledge of Meneses' contributing money or supplies to the Contras, but he recalled hearing from Enrique Bermudez that Meneses had visited "Las Vegas," the Contras' first big camp in Honduras, and had given the troops a cross-bow, promising to donate other sporting goods. When asked if he would remember if Meneses ever gave him \$5,000 or \$10,000, Calero laughed and stated that he would have remembered getting \$500. Although Calero knew Meneses to be very wealthy, he did not know where Meneses got his money. According to Calero, Meneses never had any position, not even a fund-raising one, with the FDN. Calero stated that he recalls having had a picture taken with four or five Nicaraguans in San Francisco, one of whom was Meneses. He noted that he often had his picture taken with many Nicaraguans while on his trips, but that he never paid particularly close attention to who they were. Calero told the OIG that he believed that he visited Norwin Meneses' house in San Francisco on one occasion sometime between 1985 and 1987, and that the picture of Meneses, himself, and others might have been taken there.

Calero said it was "preposterous" to suggest that anyone from the United States government ever asked him to get involved in drug trafficking. He added that the "American government persons who had a relationship with us [Contras] were all decent and honest, and never did anyone propose that we do anything illegal." Calero added that he "would have denounced anyone who would ever have proposed drug dealing" because the Contras "had enough problems."

Testifying before SSCI on November 26, 1996, Eden Pastora said he met Norwin Meneses in 1979 and later ran into him by chance in Costa Rica in about 1988. Pastora had heard that Meneses was involved in drug dealing in Nicaragua, but had never heard of his involvement in drug sales in California or that he was trying to support the Contras with drug funds. Pastora testified that he first met Bandon in either Miami or San Francisco; they met a total of three or four times and discussed politics. Pastora stated that Bandon gave him \$3000 for the Contra struggle on each of two occasions between 1985 and 1987 and two pickup trucks as personal gifts. Pastora testified that Bandon owned a car dealership and always seemed to have money. Bandon also lent Pastora the use of his house in Costa Rica, and Pastora lived

there for several years. Pastora said he had no idea that Blandon was involved in drug trafficking until Blandon's arrest in San Diego in 1992.

Interviewed by the OIG in Nicaragua, Adolfo "Popo" Chamarro said he had been the Chief of Logistics for ARDE beginning in 1982, but had resigned in 1985 to join another Contra faction with Alfredo Cesar. Chamarro told the OIG that he had no knowledge of anyone in ARDE who was involved in drug trafficking. He said he knew Danilo Blandon from Miami, where Chamarro had a security firm in 1984 or 1985 and Blandon was in the rental car business. Blandon was known by Chamarro to be friendly with Pastora and Karol Prado, a pilot and Pastora's assistant. Chamarro stated that he was not aware that Blandon was involved in drug dealing, and noted that Norwin Meneses had no involvement with the Southern Front Contras.

## **4. Blandon's Associates**

### **a. FBI Los Angeles Informant**

The OIG interviewed an FBI informant from the Los Angeles area (LA CI-1), whom the FBI considers to be highly reliable. LA CI-1 told the OIG that it was widely known that Meneses was already engaged in drug trafficking in Nicaragua prior to the revolution and had arranged cocaine shipments from Colombia through Nicaragua to the United States using his contact in the Somoza government; Meneses had even used a Nicaraguan Air Force plane once for such a shipment.

Even before the term "Contra" was being used, LA CI-1 reported that there were meetings of "anti-Sandinistas" at Meneses' house which were attended by politicians, Somozistas, and other exiles interested in starting a counter-revolutionary movement. Meneses told of meeting with Colonel Enrique Bermudez. LA CI-1 said that he believed that Meneses tried to cultivate a relationship with Bermudez so he could later use it to his advantage to move his drug shipments because Meneses' special relationships in the Somoza government no longer existed. LA CI-1 had no information indicating that Bermudez was involved in drugs, or regarding Meneses' relationship with Bermudez. He knew, however, that Meneses was trying to re-establish his drug routes through Nicaragua, Honduras, or Costa Rica because his drug trade had been interrupted because of the political conflicts. According to LA CI-1, Meneses tried to position himself to help the Contra movement, but little came of his efforts. He provided nominal amounts of money and goods; in one case goods collected from the community, like "tennis shoes," and a truck were donated.

LA CI-1 reported that Blandon and Meneses were working together as early as 1982 when Meneses was bringing cocaine from Miami to Los Angeles. At that time, Blandon was selling only ounces of cocaine. In 1984 or 1985, after Meneses left for Central America to re-establish his drug suppliers, and because he wanted to "lay low" after the arrest of his nephew, Jairo Meneses, Blandon traveled all over the area and to San Francisco with one of his new drug partners. During this period, according to LA CI-1, Blandon never traveled out of the United States to do business with or visit the Contras. LA CI-1 stated that Meneses and Blandon had no direct role as founders of the FDN, but that Ivan Torres, an associate

of Blandon's, was a "functionary" in the FDN. LA CI-1 said that, had Blandon ever claimed to have gotten involved with selling drugs to fund the Contras, he would have "laughed in Blandon's face."

LA CI-1 heard that when Blandon was in Miami once to arrange a big drug transaction, he went to a party at the home of a Nicaraguan at which Eden Pastora was present. Pastora was trying to raise money from those who were opposed to the Sandinistas. Blandon talked with Pastora, but was reportedly quite drunk, and Blandon never came through with any money for the Contras. LA CI-1 believed that if Blandon did give money to Pastora, it would have been a nominal amount. Asked about a summary of one of his debriefings by the FBI, which stated "Pastora was seeking cocaine funds from Blandon to fund Contra operations," LA CI-1 said that he had simply meant that Pastora was seeking funds which LA CI-1 knew to be cocaine funds, but that he had no way of knowing if Pastora knew the source of Blandon's funds. Blandon had a legitimate business besides trafficking in drugs and was from a wealthy family.

### **b. Ivan Torres**

We also interviewed Ivan Torres, a long time friend of Blandon's who was involved in the FDN -- primarily as a singer and songwriter, according to Torres. Torres told us that Blandon attended FDN meetings for less than a year. Torres knew that Blandon was selling drugs, although Blandon never told him so directly. Blandon gave \$800, at most, to the FDN and sent two station wagons to Honduras. As far as Torres knew, Meneses gave no money to the FDN. According to Torres, Meneses was not involved in the FDN for long and never attended any FDN meetings.

### **c. Carlos Rocha**

Carlos Rocha, who said he worked for Danilo Blandon as a driver from 1985 to 1987, was involved in various FDN activities in Los Angeles. He told the OIG that Blandon was a member of an organization, APRONIC, that wanted to merge with the FDN. "APRONIC" stood for the "Association of Professional Nicaraguans" and consisted of Meneses, Blandon, and some others who claimed to be displaced Nicaraguan professionals and businessmen. In December 1981, Blandon approached the FDN on behalf of APRONIC offering to help the FDN raise money. Rocha explained that he was 21 years old at the time and felt that the FDN needed a group of professionals to represent the organization and provide it with a polished image. Although Blandon and others wanted official FDN titles, Rocha refused, fearing that they would use their official positions to assume control of the FDN. Nevertheless, since they were all fighting against the Sandinistas, Blandon, Meneses and the other APRONIC members were invited to FDN meetings. APRONIC organized a fundraiser for the FDN in Los Angeles in 1982, which lost money. By the beginning of 1983, APRONIC ceased to exist, and, so far as Rocha knew, many of its members became car salesmen. Rocha claimed that he did not know that Blandon or Meneses were involved in the drug trade at that time.

Rocha recalled that the plight of the cash-strapped FDN improved in 1982, because Argentina began giving money to the FDN; Rocha was never sure whether the money was coming from the Argentinean

government or non-governmental interests. Rocha did not hear anything about drugs or drug trafficking in the FDN at this time. By late 1982, the FDN had about 500 people and had even bought uniforms for its soldiers in Honduras. In 1982 the Los Angeles FDN held a fundraising fiesta. Although Blandon fronted money for the party, it was the only money Rocha recalled that Blandon ever gave to the FDN, and it was repaid.

At the end of 1982 and the beginning of 1983, Rocha said that Adolfo Calero joined the FDN and a power struggle ensued. Rocha stated that he believed that rumors that United States financial aid was on its way had prompted the military branch of the organization, including Bermudez, to mount an effort to take over the FDN. During this power struggle, Bermudez traveled to Miami to meet with the would-be leadership of the FDN, which included Calero. Meneses and Blandon also traveled to Miami, apparently to ingratiate themselves with the FDN leadership.

By October 1983, Rocha said he held no power or title in the organization and was not very active in FDN activities. Rocha met Calero during this time period and noted that Calero appeared to have money. Rocha also heard from Bermudez that the FDN no longer had financial worries. The rumors were that the United States government was supplying money in support of the FDN. But by this time, Blandon was no longer involved in the FDN, and Rocha thought he was involved in a business distributing audio cassettes.

To Rocha's knowledge, Blandon did not give the FDN anything other than the \$900 that he loaned the organization in 1982, and two trucks that were shipped down to Honduras; Blandon later claimed that the trucks were stolen and recovered insurance money for them. Rocha said that Meneses may have given the organization approximately \$5,000. Rocha noted that Meneses and Pastora were close and that Pastora had lived in Meneses' house in Costa Rica. Rocha made clear that he had no reason to believe that the FDN used drug proceeds to mount its war in Nicaragua.

## **5. Meneses' Associates**

### **a. DEA Informant**

DEA CI-1 worked with Meneses when he was a DEA informant in 1986 and 1987 on an investigation of Blandon. This is discussed extensively in Chapter III. DEA CI-1 reported to us that Meneses, Blandon, and Ivan Torres had been trafficking in cocaine long before the overthrow of Somoza. Meneses told DEA CI-1 in 1986 or 1987 that when the Contra revolution started, he met with some "American agents," whom Meneses assumed were with the CIA, and showed them how to get in and out of Nicaragua.

In attempting to infiltrate the Blandon organization with Meneses on behalf of DEA in 1987, DEA CI-1 participated in conversations with Meneses, Blandon and Torres about the Contras. When we interviewed him, DEA CI-1 told us that neither Meneses, Blandon or Torres claimed they sold cocaine to support the Contras; they just happened to be in a position to help some of their Contra friends and

acquaintances, such as Pastora and Calero, by donating money. DEA CI-1 reported that Meneses probably did not give more than a few thousand dollars. DEA CI-1 said Eden Pastora and Adolfo Calero "lied" in the Congressional hearings when they denied knowing any dope dealers or Meneses. DEA CI-1 said Calero and Pastora had agreed to deny knowing Meneses, Blandon and Torres, in order to keep Calero and Pastora "clean."

DEA CI-1 said he recalled hearing Ivan Torres claim to be in contact with the CIA outside the United States and the FBI inside the United States. According to DEA CI-1, Torres used to talk about the CIA and FBI all the time, and said that the FBI had told him "We know exactly what you do - just don't do it in the U.S." Torres never said the FBI or CIA dealt in drugs. DEA CI-1 does not recall how the alleged CIA connection came up or why.

DEA CI-1 was asked about a statement contained in a DEA debriefing report dated January 18, 1987, which reports that Ivan Torres stated that he had received counterintelligence training from the CIA, and that the CIA "looks the other way" and allows the Contras to engage in drug trafficking as long as it is done outside the United States. DEA CI-1 stated that Torres did say he received such training from the CIA but that it was the FBI, not the CIA, which Torres claimed "looked the other way." DEA CI-1 said he never reported this about the CIA.

## **b. Renato Pena**

The OIG interviewed Renato Pena in San Francisco. Pena was convicted on federal drug charges in 1984 and served one year in prison after cooperating with the DEA. When debriefed by the DEA in the early 1980s, Pena said that the CIA was allowing the Contras to fly drugs into the United States, sell them, and keep the proceeds. Pena did not repeat this claim in subsequent DEA debriefings that focused solely on allegations of Contra involvement in drug trafficking, and he did not make it to the OIG.

Pena told the OIG that, from the end of 1982 to mid-1984, he was the official representative of the FDN in northern California, in charge of the San Francisco chapter. His job was to "communicate" to the public and the media on behalf of the FDN, and to distribute propaganda among the Contra sympathizers. Pena stated that he was present on many occasions when Meneses telephoned Bermudez in Honduras. Meneses told Pena of Bermudez's requests for such things as gun silencers (which Pena said Meneses obtained in Los Angeles), cross bows, and other military equipment for the Contras. Pena believed Meneses would sometimes transport certain of these items himself to Central America, and other times would have contacts in Los Angeles and Miami send cargo to Honduras where the authorities were cooperating with the Contras. Pena believed Meneses had contact with Bermudez from about 1981 or 1982 through the mid-1980s. Meneses would bring military information, bulletins, and communiques from Bermudez that Pena would put into newsletters and give to the press and Contra sympathizers.

Pena said he was one of the couriers Meneses used to deliver drug money to a Colombian known as "Carlos" in Los Angeles and return to San Francisco with cocaine. Pena made six to eight trips, with

anywhere from \$600,000 to nearly \$1 million, and brought back six to eight kilos of cocaine each time. Pena said Meneses was moving hundreds of kilos a week. "Carlos" once told Pena, "We're helping your cause with this drug thing... we are helping your organization a lot." Carlos only spoke in "general" terms that some of the money was going to the Contras and gave no other details, according to Pena.

Pena did not tell the OIG, but stated in a February 1997 declaration in support of his petition to avoid deportation from the United States based on his criminal conviction, that Jairo Meneses had asked him to help transport money to Los Angeles in 1984 to purchase cocaine for sale in San Francisco. Jairo Meneses allegedly told Pena that the drugs were being sold to raise money for the Contras. Pena alleged that Jairo Meneses told him the "United States was aware of these dealings, and that it was highly unlikely that I would even get in trouble." Pena stated that both Norwin Meneses and Danilo Blandon told him they were also raising money for the Contras through drug dealing, and that Blandon stated that the Contras would not have been able to operate without drug proceeds. Norwin Meneses allegedly told Pena that Contra leader Enrique Bermudez was aware of the drug dealing.

On October 22, 1982, a cable from a domestic CIA Station reported that an INS informant in the local Nicaraguan exile community has stated that "there are indications of links between [a specific religious organization] and two Nicaraguan counter-revolutionary groups. . . . These links involve an exchange in [the United States] of narcotics for arms." The cable further stated that, according to the informant, there was to be a meeting in Costa Rica "within a month" about this exchange. The cable stated that the INS was in contact with the FBI about this matter. Without the identity of the INS informant, the OIG was unable to locate INS or FBI records about this matter.

On October 27, 1982, CIA Headquarters responded to the Station that there was interest in the report if the "allegations had some basis in fact" and instructed the Station to contact INS for additional information. After consultation with INS, the Station reported, in a November 3, 1982 cable, that it had learned that attendees at the meeting would allegedly include representatives from the FDN and the Nicaraguan Democratic Union (UDN, another Contra group), and unidentified United States citizens. The cable identified Renato Pena as one of four who would represent the FDN. The cable expressed concern about the involvement of the CIA because of the involvement of United States citizens. A November 13, 1982, cable from CIA Headquarters stated that: "in light of the apparent involvement of U. S. persons throughout, agree you should not pursue the matter further."

A November 17, 1982, cable from CIA Headquarters to a CIA station in Central America stated: "It is Headquarters opinion that much of information . . . simply does not make sense (i.e. UDN/FARN cooperation, need to obtain armament through illegal means, shipment of arms to Nicaragua, involvement with the [named religious organization]). We see a distinct possibility that the [INS] source was either intentionally or unintentionally misinformed.

Pena told the OIG that the religious organization gave only humanitarian aid to the Contra refugees and provided some logistical support for the Contras' political efforts in the United States. Pena stated that his efforts on behalf of the Contras all took place in the United States and that he never traveled outside



of the United States because of his immigration status as an applicant for political asylum.

According to Pena, in mid-1984, FDN leaders came to San Francisco, and replaced him with Tony Navarro, who owned a body shop in San Francisco. Although the leaders never said so, Pena thought they suspected he was involved in drug dealing. Thereafter, according to Pena, another Contra leader, Commander Aureliano, appointed Pena as the military representative of the FDN in the San Francisco area. When asked why Aureliano would appoint Pena to another position when he was suspected of dealing in drugs, Pena attributed this to that fact that Meneses was on such good terms with Bermudez, who Pena said was a "CIA agent." When asked how he knew that Bermudez was a CIA agent, Pena dismissed the question, saying "it was very obvious." Bermudez had been the military attache in Washington at the end of the Somoza regime, and, according to Pena, all Latin American military attaches in D.C. embassies are recruited by the CIA. Because Norwin Meneses kept in good contact with Bermudez, Pena "believe[d] the CIA knows about all these things."

Pena said he suspected that Meneses was some kind of "double agent," working for both the Sandinistas and the Contras. Pena said that Meneses was connected to the Sandinistas because his latest mistress or wife, Margarita Castana, was Bayardo Arce Castana's niece. Bayardo Arce was one of the nine Sandinista commanders in the 1980s, and, according to Pena, a well-known drug addict.

Pena told the OIG that the money the Contras received from the Reagan administration was "peanuts," and the growing military organization needed supplies, arms and food, and money to support the families of the Contras. Pena stated his belief that the CIA decided to recruit Meneses so that drugs sales could be used to support the Contras; Bermudez could not have recruited Meneses on his own, according to Pena, but would have had to "follow orders."

### **c. Jairo Meneses**

As discussed in Chapter III, Jairo Meneses was arrested by DEA in 1984 along with Renato Pena and agreed to cooperate with the DEA. Jairo Meneses reported to the DEA that Norwin Meneses had dealt directly with leaders of both the Contras and the Sandinistas since the early 1980s in an effort to promote his cocaine business. Jairo also reported that Norwin Meneses had "dealt" (not further explained) with Enrique Bermudez. According to Jairo, Norwin Meneses had obtained cocaine from individuals in the Sandinista government, using Margarita Castana, the niece of Bayardo Arce, as an intermediary. Jairo also reported that during the Somoza regime, Norwin Meneses had smuggled weapons, silencers, and video equipment into Nicaragua, which he exchanged for money and narcotics. When the operation was discovered by Oscar Reyes, a high ranking customs official in Nicaragua, Norwin Meneses arranged for Reyes' assassination.

Jairo Meneses could not be located to be interviewed by the OIG. The OIG received a report that Jairo Meneses was killed in Nicaragua in 1991 or 1992, but could not confirm this.

### **d. Tony Navarro**

Tony Navarro is a Nicaraguan who came to the United States in 1963 and became a naturalized United States citizen in the late 1960s or early 1970s. Navarro has no criminal record. Navarro told the OIG that he got involved with the FDN in San Francisco in around 1980. Navarro said he had no official position at first but he would coordinate dinners when the Contra leaders came to San Francisco and he "fronted" money for these events. In July 1986, Navarro was appointed the official San Francisco representative for the FDN. Navarro said Renato Pena never served in the FDN in an official capacity, but may have been an unofficial representative prior to 1986. According to Navarro, Pena appointed himself as military representative around 1984.

Navarro said he met Adolfo Calero several times when Calero came to San Francisco. Calero once stayed at Navarro's house around 1989. Navarro said Enrique Bermudez once came to Navarro's house around 1985 or 1986. Navarro said Norwin Meneses came to a couple of FDN meetings, but Meneses was not a member of the FDN, and did not, to Navarro's knowledge, ever give any money, equipment, or supplies to the FDN or the Contras. Navarro once met Danilo Blandon at a large FDN meeting held at Navarro's shop in San Francisco. Navarro never saw any evidence that Blandon ever gave any money to the Contras. Navarro said he thought Bermudez was "straight" (i.e. not involved with drug dealing), but Navarro said he did not really know. Although Navarro had never heard that anyone was dealing drugs to get money for the Contras, he said that some people took "advantage of the revolution to do their own business."

#### **e. Enrique Miranda-Jaime**

As discussed extensively in Chapter VII, Enrique Miranda-Jaime (Miranda) has made numerous allegations to the press, Congresswoman Maxine Waters, and others about Meneses' drug connections with the Contras and the CIA. In our interview of him, we found that Miranda did not have any credible first-hand information or corroborating evidence to support his claims.

Miranda testified in the 1991 trial of himself and Meneses in Nicaragua on drug trafficking charges that Meneses had financed the Contra revolution with cocaine proceeds, and that the Colombians had used the Salvadoran Air Force to land Meneses' cocaine shipments at a Texas Air Force base. Miranda also told the OIG that he had documentary proof of Meneses' relationship with the CIA.

As discussed below, Miranda's allegations regarding Meneses' drug trafficking activities with the Contras, and of CIA involvement, lack credibility. His information is second-hand, mostly from Meneses. Miranda at first claimed to have witnessed the transfer of drugs in Texas but, when pressed for details, said he had not actually seen it occur. It was also clear that much of what Miranda told the OIG was from reports that had been previously printed in the newspapers. In addition, Miranda was unable to produce the documentary evidence he claimed established a tie between Meneses and the CIA.

### **6. Other DEA Informants**

In 1986, in connection with a Congressional investigation, the DEA undertook an assessment of all

allegations that the Contras were involved in drug smuggling. To this end, DEA Headquarters intelligence analysts interviewed numerous DEA informants.

In April 1986, a DEA intelligence analyst interviewed an informant referred to here as SR3, who had been assisting the DEA in its investigation of Norwin Meneses for the prior three years. The source had a long track record of providing information and was considered "extremely reliable." All of SR3's information regarding Contra involvement in drug trafficking came from Norwin Meneses, who SR3 had known since he was very young. SR3 stated that prior to the revolution Meneses was involved in drug trafficking, facilitated by high-level connections in Nicaragua. SR3 reported that when the Sandinistas took control, Meneses lost approximately \$12 million worth of cash and property.

SR3 told the DEA in 1986 that Meneses, who had once been a member of the FDN, had been trafficking both to make money for himself and to raise funds for the Contras. He used family members to smuggle drug proceeds from San Francisco, through New Orleans and into Central America for the Contras. Some of these proceeds were used to buy weapons for the Contras in Colombia. He noted that Meneses' uncle, Armando Meneses, had been arrested by U.S. Customs in Los Angeles while attempting to leave the United States with a large amount of money. SR3 said Meneses had recruited him to coordinate drug and weapons shipments from Colombia. The drugs were shipped to the United States, sometimes through Nicaragua. SR3 observed that Meneses would do anything for money and reportedly was getting cocaine from the Sandinistas. Meneses boasted that he traveled in and out of Nicaragua freely, and that United States agents would assist him, which SR3 took as a reference to either the CIA or the FBI. SR3 noted that Jairo Meneses was running Norwin Meneses' operations in the United States and that Renato Pena worked for Jairo Meneses, and ran the San Francisco office of the FDN. According to SR3, Pena was one of the major Contra fund raisers in San Francisco and was one of those responsible for sending Meneses' drug proceeds to the Contras.

SR3 said he had stopped working for Meneses when Meneses fled from the United States to Costa Rica in 1985. The DEA intelligence report noted that, aside from statements made to him by Meneses, SR3 did not have much first-hand knowledge of the alleged flow of drug proceeds to Central America. The OIG was unable to locate SR3 to interview him regarding these statements.

The DEA also interviewed three Nicaraguan subjects arrested in a San Francisco DEA case. All three stated that they knew Contras who were involved in drug activity. One stated that the Contras were selling drugs to make money to finance the war; the two others did not specify whether the Contras were selling on behalf of their organization or for personal gain. The DEA concluded that all three probably knew more than they had told the DEA but held back because of family and political ties.

## 7. Conclusions

The foregoing accounts -- conflicting though they may be in some aspects -- support three propositions: Blandon and Meneses were engaged in drug smuggling beginning in the early 1980s. Both were Contra sympathizers who may have played some role in local FDN chapters at some point. And both gave some

of their drug profits to the Contras. The harder questions, the ones that the OIG cannot answer definitively, are (1) to what extent did Blandon and Meneses funnel drug profits to the Contras? and (2) to what extent were Contra leaders aware that they were receiving drug money?

The OIG has not uncovered any concrete evidence -- such as bank records or drug ledgers -- that the money raised by Blandon or Meneses went anywhere other than into their own pockets. We can, however, provide some assessment of the credibility of the various witnesses who have given widely divergent accounts on this score. The OIG found LA CI-1, Tony Navarro, and Carlos Rocha to be substantially credible witnesses. LA CI-1 had first-hand, personal knowledge of Blandon's drug trafficking activities and began providing the FBI with unsolicited information during the late 1980s. The information he gave to the FBI and DEA over the years proved to be highly reliable. Tony Navarro has been a legitimate businessman in the San Francisco area for many years, and was forthright and helpful in his interview with the OIG. The OIG also found Carlos Rocha to be very credible, and able to supply very detailed information. He appeared to be a true believer who made many sacrifices for the FDN and was somewhat resentful of individuals like Blandon who seemed more interested in self-promotion.

The OIG did not find Renato Pena's allegations that the CIA "had to be involved" in drug sales for the benefit of the Contras to have merit. Pena has said different things to different people at different times, and there is no evidence to support many of his assertions. The only basis for his claims about the CIA seems to be the connection between Meneses and the Contras and the connection between the Contras and the CIA.

Based on the information gathered by the OIG and the credibility assessments made of this information, the OIG believes that Danilo Blandon and Norwin Meneses were large scale drug dealers who supplied massive amounts of cocaine to buyers in the United States. They were also both Contra supporters, although their roles in this regard were marginal. They were members of local branches of the FDN whose job it was to rally support for the Contras from fellow exiled Nicaraguans. Both gave charitable contributions to the Contras and, because of their line of business, that money came from drug trafficking. The monetary amounts were relatively insignificant compared to the money they made in drug trafficking.

Contra leaders have denied -- and there is no evidence to contradict the denials -- that they solicited drug funds or knew that drug money was coming into the Contra movement. We concluded that Meneses' reputation had preceded him in the small Nicaraguan exile community and that people who dealt with Meneses knew or should have known that money coming from him was likely from an illicit source. Whether those who received money from Blandon should have suspected its source is less clear. Blandon had legitimate businesses concurrent with his drug business, and he did not have the same criminal reputation that Meneses did.

The OIG did not find evidence demonstrating a tie between Blandon or Meneses and the CIA. As discussed above, the CIA has denied any such link on numerous occasions. Although various individuals

may have claimed CIA affiliation during the course of their illegal activities, we found no evidence to support such a tie or CIA involvement in Blandon or Meneses' drug trafficking.

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44. Bermudez was killed in Honduras in 1991, in what remains an unsolved homicide.

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## Chapter V: Ronald Lister

Ronald Lister is a convicted drug dealer who has alleged that he had a relationship to the CIA. At various times during the investigation of Blandon and since, questions have arisen as to whether Lister in fact had any such connection. It is to these issues that we now turn. Our exposition here is somewhat episodic. We simply look at the contexts in which a relationship between Lister and the CIA has been suggested, and then evaluate that evidence. There are many loose ends. But one bottom-line conclusion emerges with some force: we have found no credible evidence that Lister ever had a relationship with the CIA. The evidence does indicate, however, that Lister frequently told people that he had an association with the CIA in order to impress them and to hide his illegal activities.

### A. Background of Lister

When interviewed by the OIG, Ronald Lister said that he was in law enforcement for approximately 13 years: first with the Los Angeles Sheriff's Department in 1967, then with the City of Maywood, California, Police Department from 1969 to 1973, and finally with the City of Laguna Beach Department in California, from 1973 to 1980. In 1980, Lister left the Laguna Beach Police Department to "go into the security business full-time."<sup>(45)</sup> He became the owner of Terman International Security Consultants, which later became Mundy's Security Group. The business was based in Newport Beach, California. Lister told the OIG that the company was "involved in physical security applications, both overseas and here in the U.S., commercial, institutional, maybe governmental, residential."

In researching DOJ files, the OIG found five FBI files on Lister. In September 1983, Lister's company, Pyramid International Security Consultants, was listed as the subject in a neutrality violation investigation involving the sale of weapons to El Salvador and the loan of money from Saudi Arabia to the Salvadoran government. Lister was also alleged to be attempting to sell arms to several other countries. No further information was ever developed in this matter.

In 1984, the FBI became aware of an attempt by Lister to offer his services to a foreign government. Lister reported that he was investigated by the FBI because he sold an FBI "scrambler system" to someone overseas, but the FBI later learned that the equipment was not classified and was available on the open market. However, a review of FBI files reveals that the FBI terminated its investigation of Lister, not because it found his actions to be legal, but rather because Lister could not actually supply the equipment he was attempting to sell to the foreign nationals. The FBI concluded that Lister was "an ordinary con man" and that, while Lister clearly had intentions of violating U.S. export laws, he did not appear to have the ability to do so. The FBI closed the case.

During the FBI's 1984 investigation of Lister, he claimed to have extensive CIA contacts and provided a number of names, including David Scott Weekly. The FBI noted that Lister was duplicitous throughout the interview and only made admissions when confronted with evidence. The San Francisco FBI office labeled Lister the "quintessential con man." The FBI interviewed Weekly and two others and determined

that they did not have any information supporting Lister's claims of CIA ties. Lister later told the FBI that he only believed that these individuals had CIA contacts and mentioned them to his foreign "contact" to establish a "credibility base."

FBI records also indicate that, in approximately 1985, the Boston office of the Bureau of Alcohol, Tobacco and Firearms (ATF) investigated attempts by Lister to sell illegal firearms to an informant. The inquiry was closed when Lister, who was in California, insisted that an informant pay his way to Boston in order to complete the arms transaction. When the informant did not pay, Lister said he was no longer interested, and the deal was never completed.

In July 1986, a file was opened on Lister and Aparicio Moreno for alleged contacts with foreign authorities in the United States. No further evidence was developed and the file was put in inactive status in July 1987 after the initiating office became aware of the pending drug investigation in Los Angeles.

In August 1986, Ronald "Lester" became the subject of investigation by the Savannah, Georgia, FBI office when "Lester" discussed selling illegal counter-surveillance devices to an undercover agent. The investigation was terminated when Lister moved to Laguna Beach, California, and no further evidence was developed against him.

According to the CIA OIG, the CIA has no record of Ronald Lister except for the inquiry made by FBI SA Aukland in 1986 as to whether Lister was an asset, as a result of statements Lister had made at the time of the LASD search of his home. The CIA informed the FBI that he was not an asset.

## **B. Lister's Dealings with Blandon, Meneses, and the Contras**

Although the focus of the OIG's inquiry was on allegations of impropriety involving the Department of Justice, our investigation shed considerable light on the relationship between Lister, Meneses, and Blandon, and particularly on the claim that Lister aided Blandon and Meneses in support of the Contras. As with the other allegations that do not involve DOJ in this report, we will describe the information gathered, give our assessment of the reliability of the witnesses, but not reach any definitive conclusions.

Lister told the OIG that he had met Blandon at the end of 1981 through a connection in Beverly Hills. According to Lister, the intermediary was interested in having Lister meet Blandon "for the purpose of providing security and possibly doing some work in Central America." Lister stated that he had several proposals for providing security to the government of El Salvador, where he had maintained an office for several years. Lister soon met Meneses through Blandon because, according to Lister, Blandon and Meneses were "working closely in those days." A partnership soon developed involving Lister, Meneses, and Blandon. Lister explained that "Blandon and Meneses were the ones that opened the doors down there [referring to El Salvador], and . . . they were considered part of the company. They were going to share in the profits." Lister noted that Blandon and Meneses had many connections in El Salvador, connections that he later learned were from their drug trafficking business. Lister soon became aware,

based on the fact that they always paid him and everyone in cash, that Bandon and Meneses were dealing in drugs. When he approached them about obtaining cocaine, they agreed. Lister obtained the cocaine from Bandon and gave it to an associate to distribute. Lister ultimately began purchasing cocaine in multi-kilo quantities for resale.

When interviewed by the OIG, Lister noted that many of the Nicaraguans with whom he dealt supported the Contras. But he dismissed the claim that they were giving their money to the Contras -- according to Lister, they were just drug dealers. He stated: "We were just a bunch of people making money and maybe psychologically feeling better about what we were doing because we said we were helping somebody." Both Bandon and Meneses told Lister at different times that they wanted to help the Contras, but Lister stated that he knew that they were not doing it to any substantial extent "because the money just went back in our pockets." He recalled that Bandon gave some money to Pastora, but said these were small amounts given in friendship.

Lister told the OIG that, between 1982 and 1984, he and an associate obtained 15-20 "KG-9's" (also known as "Tech-9's") and some handguns from "Crasney's Gun Shop," a legitimate gun dealer, and sold them to Bandon. Lister denied dealing in any fully automatic weapons. He claimed that he provided Bandon with the weapons for the Contras and that that is how Lister "felt [he] was doing [his] part to help him." Bandon told Lister that he had sent the weapons to the Contras, but Lister had no personal knowledge of that fact. He explained: "Anything I gave him was for the purpose of the Contras. What he did with it, I can't say." Lister stated that he was not aware of Bandon's selling weapons to Ricky Ross, but opined that Bandon might have given him a few as gifts in order to maintain their business relationship.

Lister told the DEA in 1990 that he became involved in drug dealing when he met Norwin Meneses and Danilo Bandon in early 1981. Lister began obtaining kilograms of cocaine from Bandon and selling it with the aid of his friend Bill Downing. Lister also said that he transported money and drugs for Bandon. Lister told the DEA that in April and June 1984, Bandon paid him \$60,000 to deliver two customized vans with cash that Bandon had secreted in the door panels to Bandon in Miami. Bandon told Lister that the first van held \$1 million in cash. Lister reported that he later heard that the second van held \$5 million in cash.

Lister told the OIG that he helped Bandon deliver cocaine to Ricky Ross on only one occasion, sometime in 1985. They delivered 100 kilos of cocaine and picked up \$2.5 million in cash. Lister stated that Bandon paid him \$50,000 for his work.

The account Bandon gave the OIG of the transactions described by Lister was somewhat different. He said that he had first met Lister when he came to an FDN meeting to show them some weapons. Eventually, Lister, Meneses, and Bandon entered into an informal partnership for the purpose of selling arms abroad. Efforts to sell to the Contras were unsuccessful, however, because the Contras already had their own weapons suppliers. Meneses, Bandon, and Lister then went to El Salvador to market weapons to the Salvadorans. According to Bandon, the plan was for Bandon and Meneses to get their share of



the profits in weapons, which they would then give to the Contras.<sup>(46)</sup> Blandon stated that the project failed because on their second trip to El Salvador, Meneses sent his girlfriend a book containing cocaine and it was intercepted in San Salvador. Meneses was not charged but according to Blandon, his contacts dried up. Blandon stated that Lister was broke so he started asking Blandon to get him involved in the drug business.

Blandon recalled hearing Lister say that he was involved with the CIA and that he knew someone high up in the CIA who was getting him some licenses so he could sell weapons to Iran. Blandon said that he had never believed Lister because he lied too much. For example, to pay off a \$14,000 debt to Blandon, Lister had given Blandon a little piece of land Lister said he owned. When Blandon went to register his title to the land, he found that Lister had already sold the land six months before to someone else.

The OIG also interviewed the FBI informant, known here as "LA CI-1," who had provided information about Blandon, Meneses and Lister in 1986 (see Chapter II). LA CI-1 shed light on the El Salvador deal described by Lister and Blandon above. LA CI-1 recalled that Meneses returned to Miami from El Salvador in 1982 and spoke of plans to sell night scope devices obtained from Ronald Lister to the Salvadoran government. Meneses was planning to use the proceeds from the night scopes to aid the Contras. Meneses was concerned whether Lister was "legitimate." Meneses later learned that Lister's proposals had no chance of success, and that Lister was not honest. Because Meneses had already invested money in the project, Meneses had a "damage assessment" conducted which revealed that Lister's contacts were inadequate and the equipment he was trying to sell was basically useless.

## **C. Reports of Lister's CIA Affiliation in Connection with the 1986 LASD Search Warrants**

As discussed extensively in the chapter on Blandon, Lister's apparent foreknowledge of the 1986 search of his home by Los Angeles Sheriff's Department Deputies, comments he made in the course of the search, and certain materials seized at the time, all have provided grist for the suggestion that he indeed had some relationship with the CIA and/or the Contras. Closer examination of this evidence, however, shows it to simply corroborate the accounts of Blandon, LA CI-1, and even Lister himself, about the abortive attempt to sell weapons to the Contras, or to others on their behalf, in 1982.

### **1. Lister's Alleged Foreknowledge of the LASD Warrants**

When interviewed by the OIG, Lister said he had not been "tipped off" in advance that the LASD was about to execute search warrants. A former neighbor had called to tell him that there were two men on the hillside of the house where he had previously lived with "walkie-talkies or something." Because he had been a policeman and because of his time in the "coke business," he knew "this has gotta be a precursor to a search warrant." Lister recalled that this was either several weeks or days before the raid. He had called Blandon and "laid it all out on him." However, as described in Chapter II, above, Blandon told a different story to the OIG about how he found out that he was under investigation. We have found no evidence indicating that Lister had any other sources of information about the raid.

## 2. Lister's Claims of a CIA Connection

As discussed in the chapter on Blandon, LASD deputies alleged that Lister made statements about his CIA contacts when they searched his house in 1986. LASD deputies recall that Lister stated that if he made a phone call, the law enforcement agents would be forced to go away. When interviewed by the OIG, Lister denied making any such comment or ever claiming affiliation with the CIA. But, as discussed below, when Lister was confronted with several letters written by his attorney, Lynn Ball, that included several references to Lister's contact with "intelligence agencies," Lister admitted having claimed contacts in the CIA on several occasions in order to get different law enforcement agents to "back off." He also stated that his claim of CIA affiliation was just a "ruse" and that it "sounded like a good thing to say" at the time.

Lister stated that the documents taken from his house and logged in by the Sheriffs as "CIA documents" were in reality his personal business papers and journal. After no charges were filed against Lister, his attorney retrieved them and returned them to Lister. We now turn to a discussion of these documents.

### D. Documents Seized by the LASD

The documents seized from Lister's home during the 1986 LASD search warrants became the subject of litigation in the "Big Spender" trial, when the LASD deputies who were being charged with corruption attempted to use the documents to support a claim of outrageous government misconduct. In a motion filed in that case, the defense alleged that deputies executing the warrant at Lister's home had discovered films of military operations in Central America, military hardware and communications manuals and information, and "numerous documents indicating that drug money was being used to purchase military equipment for Central America." Neither the documents nor the defense was relevant to the case and the introduction of the documents was not allowed by the trial court.

The San Jose Mercury News alleged that the defense motion filed in the Big Spender trial indicated "that the drug ring of former Nicaraguan government official Danilo Blandon -- which helped fuel the crack explosion in black America -- was connected to the Central Intelligence Agency and efforts to launder drug money to finance [the Contras.]"

In an article entitled "Sealed Records May Unlock Truth," the Mercury News stated that copies of a ten-page document were submitted to the court under seal and that the document may "hold the key" to unlocking the truth behind the relationship of the CIA and the Contras to the emergence of crack cocaine in black neighborhoods.<sup>(47)</sup>

The OIG has reviewed the documents seized during the searches from Lister's home that the defendants alleged to be probative of a relationship between Lister, the CIA, and the Contras. The OIG found them to offer no credible evidence of any such relationship. To be sure, in evaluating these materials we have, to some extent, considered Lister's own explanations of their significance and meaning. However, although Lister is hardly the most credible of witnesses, we generally found that his explanations on

these points rang true or were consistent with other evidence.

Lister told the OIG that the ten-page document was part of a business journal he maintained over a period of three or four years, that, in part, detailed his efforts to sell a scrambler to some Eastern Europeans. Lister noted that the journal was particularly helpful in keeping track of his business deals at a time when he was regularly using drugs. Lister also stated that the document was prepared to help in an FBI grand jury investigation of him and that the journal was helpful when he was the subject of a grand jury investigation in 1985, relating to his dealings with Eastern bloc agents (see above).

As we discussed in Chapter II, the OIG located the ten-page document referred to in the defense motion in IRS files. The first page lists various weapons and mentions "Korea." When interviewed by the LASD, Lister stated that he was licensed at the time to sell these weapons. The second page is a jumbled list of numbers and names. The only notation recognizable to the OIG lists a telephone number and the notation "Angie/Apareco, FDN," an apparent reference to Aparicio Moreno, a supplier of cocaine to Bandon's organization. Lister told the LASD that the name was supposed to be Aparicio and that he had been asked by Bandon to represent him at Aparicio Moreno's wedding. Bandon had noted that Moreno was affiliated with the FDN, as were many other Nicaraguans living in the United States. Next to the name is the notation "wedding reception," which supports Lister's assertion. Also on the second page was the notation "Khadijeh Amin - our girl in I." Lister explained that Khadijeh was a woman in Iran who had helped him establish a business relationship with a man in London who was a key food supplier in Iran. Lister stated that this was simply a business contact.

The third page and half of the fourth appear to be notes about an effort by Lister to sell a scrambler and night vision equipment to an unidentified client. The second half of the fourth page has notes about the FBI's interviewing Lister about whom he knew in Eastern Bloc countries. Then comes a list of names, including: Bill Nelson, Ron Brown, Steve Kissler, Tabor Suppan, Scott Weekly, Roberto Abuson [sic], and Ray Prendes. Lister later stated that he wrote these names because he had given them to the FBI when they interviewed him. He said that Bill Nelson was an "A.S.I.S. member" (American Society for Industrial Security) who was the security director for the Fluor Corporation -- for which Lister claimed to have done some work. Lister said that Ron Brown was a retired Navy Captain; he could not recall who Steve Kissler was, and Tebor Suppan was his businessman "buddy in Europe." Lister told the OIG that he believed that Scott Weekly was associated with the Defense Intelligence Agency and that he worked with Weekly on several projects, including a weapons demonstration in El Salvador. Lister stated that "Abuson" was the head of the ARENA political party in El Salvador, the opposition party there in the 1980s, and that Prendes was the General Secretary of the Christian Democrats, the party in power. Roberto D'Aubison was indeed a leader of the ARENA party in El Salvador during the early 1980s (and later the Prime Minister of El Salvador), and this document may well reflect efforts by Lister to supply military equipment to one or more factions involved in the civil war that was raging in El Salvador during this period.

The next pages appear to document efforts on Lister's part to sell security plans and materials to a representative of a foreign government in San Francisco, and several other individuals. The journal states:

In the meantime I had regular meeting with DIA Subcontractor Scott Weekly. Scott had worked in El Salvador for us. Meeting concern my relationship [with] the contra group in Cent. Am. At that time I asked him about scramblers syst. I might buy to sell. He suggested one which he was familiar with that was commercially available. Not classified and told me who was currently using it. N.C. State Police, FBI & other domestic group, Public & Private. Said he could get one for me to sell if I had a customer. Want \$10,000 for it. As he had to share cost [with] someone in DIA. . . .

Lister told LASD investigators that he could not recall what "DIA" stood for, but that it was not the Defense Intelligence Agency. He later told them that it stood for "deals in arms" and that he used the abbreviation because he "thought it was cute. " Lister told the OIG, however, that DIA stood for Defense Intelligence Agency, and that he had referred to Weekly as a DIA subcontractor because an individual named Tim LaFrance had told him that Weekly worked for the DIA. Lister said he merely assumed that Weekly did, but never discussed it with Weekly. Lister added that there were no "CIA operatives" listed on the sheet. Lister told the OIG that he was aware that Bill Nelson had previously worked for the CIA, but that he was retired and had his own security company. The CIA OIG confirmed that an individual named William Nelson was at one time the Deputy Director for operations at the CIA.

When the OIG asked Lister why the Contras had been mentioned in the meeting he documented with Weekly, Lister explained that he had told Weekly about his past contact with Contras in an effort to make himself "look big" and to make it seem as if he had clients that he could provide equipment to. He said his references to the "Contra group" were to Blandon and Meneses and that this was a short-hand way to refer to them.

On the final page of the document is a flow chart suggesting the flow of money. Lister stated that this chart represented the legal way to sell munitions to other countries under the law as it existed in 1983. LASD investigators asked U.S. Customs Service Special Agent James P. McShane, Office of the Defense Trade Controls, to review the document, and he reported that the chart could represent a legitimate transaction that would occur if a State Department license had been obtained. He further stated that the notation "% EUC" might indicate that an "end use certificate" was being purchased and that the transaction would therefore be illegal. In a legitimate transaction, an EUC is provided without cost. He also stated that the fact that the funds were to flow through Hong Kong to "X Country" indicated an attempt to disguise the true destination of the export and therefore might be an illegal diversion of arms to someone that might not be able to get licenses for exported munition. Whatever the legality of the transactions depicted in the flow chart, nothing indicates that it shows the sale of arms to the Contras, and certainly nothing suggests that it depicts the use of drug money in any of the deals.

It is difficult to assess Lister's explanations of his writings in this document. The OIG did not find Lister to be a credible witness and he gave LASD investigators different explanations about it than he gave us. What is clear, however, is that the document does not constitute proof of either a Contra or CIA connection to Lister's drug trafficking endeavors.

The LASD deputies also seized during the 1986 search of Lister's residence various financial records, including both personal and Pyramid International bank statements. None of these accounts contained any significant amounts of money -- the largest reflecting several thousand dollars, and the smallest containing \$10. There were also a number of notices of overdue bills to Lister and records of two civil suits filed against him by Citibank for failure to pay his credit card bill and by a former employee for failure to pay his salary. The records also included Lister's telephone records, showing calls mainly to California and Florida, and Lister's airline ticket receipts and boarding passes for trips to Miami; San Jose, California; Bogota, Colombia in May 1986; and Puerto Vallarta, Mexico with his family in December 1985.

The OIG found four potentially significant documents in this group. The first two contained lists of arms coded with pastry names and a long list of weaponry and other equipment. When interviewed by the OIG, Lister said he would give the equipment list to potential clients to show what he had or could obtain and that the "pastry list" was a list of code words for various guns and ammunition that he had obtained somewhere. He said that he, Blandon, and people associated with Blandon, had used the code words when they had discussed weaponry over the telephone. Lister stated that Blandon had been looking for a source of supply of weapons and other equipment to sell to the Salvadoran government and also to provide to the Contras. Lister noted that none of the weapons requested by Blandon was on the pastry list nor did Lister have a source of supply to provide Blandon with what he was looking for. Lister said that he never provided any weapons on the list to Blandon.

Lister's 1985 monthly calendar was also among the documents seized. It reflects appointments with the notation "Contra," or "D-Contra." On February 25, 1985, the notation "1 pm - Scott DIA, Ref/Contra Group" appears. Lister told the OIG that he had probably asked Weekly for information about equipment in response to Blandon's frequent inquiries about what equipment was commercially available to support the Contras. Lister particularly recalled Blandon's asking him about fire resistant paint and night vision equipment. Lister noted that, as a general matter, the frequent references to Contras in his calendar were really just meetings with Blandon to discuss drug trafficking. Lister said that the notation "SF Contras" on March 7, 1985 was a reference to a meeting with Blandon in San Francisco on a drug transaction, and the notation "LA Contras" on September 18, 1985 referred to meeting Blandon in Los Angeles on that date.

Another document was a handwritten note with the heading "ARDE," which then listed the names "Dr. Felix Saborio," "Carol Prado, ass[istant] to Pastora," "Popo Chamorro," "Martine -- account banker," and "Marianno -- helio pilot." Lister told the OIG that he wrote the list after he had attended a party at Dr. Saborio's house in Hialeah, Florida with Blandon in 1982 or 1983 at which the five people listed were present. Blandon had asked Lister to come to the party to talk to Dr. Saborio and see if he could help him with supplying equipment to the Contras. Dr. Saborio was closely connected to the ARDE and knew Blandon from Nicaragua. Lister said he never conducted any drug transactions with the people listed, other than Blandon, and never ended up providing them with any equipment or any significant information on weaponry. The names on the list correspond with a meeting described to the OIG by Blandon. In discussing his contacts with Pastora, Blandon stated that he met with Pastora once in Miami

with Ron Lister, Dr. Saborio, Popo Chamorro, and another lieutenant in the house of "Mariano."

In the end, when stripped of their quirky embellishments, the documents seized from Lister in 1986 largely corroborate his account of his relationship with Blandon and the Contras. Lister would have liked to sell military and security weaponry and equipment to the Contras and to factions in El Salvador but we found no evidence showing that he did. And apart from the fact that his link to the potential Contra market, Blandon, was also his source of supply in his drug trafficking, Lister's trafficking activities appear to have had at best a slender relationship to his efforts in the weapons and equipment market.

### **E. Lister's Claims of CIA Affiliation Gathered by the FBI in 1986-1987**

Lister's suggestion of a CIA connection during the 1986 LASD raid was hardly the only time that he attempted to use his purported intelligence agency ties to get out of a difficult situation. Nor was it the only time that law enforcement agents were not deterred by his efforts.

On December 11, 1986, in the course of the FBI's investigation into Blandon's trafficking activities (discussed above in Chapter II), FBI agents interviewed a realtor in Mission Viejo about Blandon's association with Lister. The realtor reported that Lister -- who was known in Mission Viejo social circles as a "fundraiser organizer" -- had contacted the realtor about purchasing a residence in Mission Viejo for \$374,000 in cash. Lister stated that he was self-employed in selling security systems to third world countries and that his business was "CIA approved." At the closing, Lister had claimed that his cash was tied up in purchasing a jet in Florida and that additional funds would be coming from European accounts. Lister gave the sellers \$18,000 in cash to extend escrow by 15 days. When Lister was unable to provide the cash after the 15-day extension, escrow was extended a second time. Thereafter, Lister and his wife provided the sellers with \$20,000 in cash and were allowed to move into the residence on condition that they both make the mortgage payments and also pay \$2200 a month rent to the sellers. About a month later, Lister told the realtor's associate that he had about \$200,000 in cash in his garage in an athletic bag, and asked that the realtor retrieve the bag, and put the money in escrow. The realtor went to the house and found the bag, which contained \$224,000, much of it in small denominations. Instead of wiring the remaining funds as arranged, Lister had the realtor fly to San Jose, California, where Lister gave him a paper bag containing money. When the realtor asked Lister where the funds had come from, Lister responded that he was involved in fund raising for the Contras or the Sandinistas -- the realtor could not recall but believed it was the Contras -- and that the activity was "CIA approved." On returning to Orange County, the realtor found that the bag contained \$71,000. After he contacted Lister's wife and told her that a balance of \$51,000 or \$52,000 remained, Lister called and told him that he must have gotten the "wrong bag." A few days later, Lister provided the remaining funds and escrow closed.

On December 12, 1986, the Los Angeles FBI Office forwarded a teletype with this information to FBI Headquarters for review by agents handling an investigation entitled "Front Door," which involved allegations of neutrality act violations by United States government officials in the covert sale of arms to Iran. This FBI investigation was later taken over by the Independent Counsel in the Iran-Contra

Investigation. The teletype concluded that the Los Angeles office did not believe there was a connection between Lister and Operation Front Door. In response, FBI Headquarters requested that Los Angeles interview Lister about his contacts with Richard Secord, Albert Hakim or Stanford Technology. It does not appear that the FBI had any reason to believe there were any such contacts, and that it was a routine inquiry to determine whether there was any connection to the budding Iran-Contra investigation. On December 22, 1986, the FBI interviewed Lister and asked if he had any knowledge of or contact with Richard Secord, Albert Hakim, or Stanford Technology, the lead targets of the "Front Door" investigation. Lister stated that he had none, and denied any knowledge of arms sales to the Contras. When asked if he was involved in training of Contras he requested that an unidentified representative from another agency be present before he would answer and scheduled another interview for January 5, 1987.

On December 23, 1986, FBI Headquarters advised all offices to suspend all inquiries relating to the "Front Door investigation" to allow the newly appointed Special Counsel, Lawrence Walsh, to decide in which manner he wished the matter pursued. On January 21, 1987, the Independent Counsel issued a directive that the Department of Justice should continue investigations that did not conflict with Front Door. Because the FBI determined that Lister had no real connection to the CIA or any national security agencies or agents which would conflict in any way with "Front Door," the FBI continued its investigation of Lister.

On February 3, 1987, the Los Angeles FBI received information from an informant that Lister had told an unidentified neighbor over drinks that he worked for Oliver North and Secord and had sent arms shipments to the Contras. The Los Angeles office reported this information to FBI Headquarters and noted in its teletype that Assistant U.S. Attorney Crossan Andersen had reported the information to Public Integrity Section Attorney William Hendricks, III and that Hendricks had advised that investigation of the drug matter could continue "as long as its direction does not conflict with [Front Door]" and cited the Independent Counsel's Directive. The teletype also stated that Assistant U.S. Attorney Andersen had requested that Lister and the neighbor not be interviewed at that time, as it would have a negative impact on the ongoing drug investigation.

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45. According to the Costa Mesa police, Lister fraudulently used his police credentials after he left the Laguna Beach police department and they were not recovered until he was arrested on drug charges in 1988.

46. It should be noted that a report dated June 17, 1991, written by the Customs agent assigned to the OCDETF investigation of Blandon stated that a DEA source had provided information about a project in El Salvador to "provide assistance to the Contras." The source appears to be Lister.

47. In October 1996, Braun moved to have the ten-page document unsealed at the request of counsel for Ricky Ross. United States District Judge Edward Rafeedie instructed his staff to conduct an exhaustive

search of the files and exhibits in the case, and they located only a five-page document which was unsealed. This document was entitled "Background & Operation Plan" and appears to be the LASD plan for the execution of the search warrants at the various locations related to the Blandon organization. Braun told the LASD investigators that this five-page document was not the document he filed with the court. A transcript of the hearing at which Braun attempted to file the document reveals that the court instructed Braun to "lodge" the documents, "not file them." Lodging a document means that it will be reviewed by the court, but will not automatically become part of the court record. It is therefore likely that the ten-page document was later determined not to be relevant and was discarded.

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## **F. Lister's Guilty Plea to Tax Charges**

In the spring of 1987, with the OCDETF case against Bandon's organization foundering, the inquiry into Lister's activities became a tax investigation by the IRS. According to IRS SA Laura Hillhouse, Lister's cash purchase of the Orange County property made him a better target than Bandon because the government needed only to show how much money Lister was spending, how much money he had claimed to be earning on his tax return, and the likely source of his unclaimed income, which she believed to be from narcotics trafficking.

In an effort to track down all of Lister's sources of income, SA Hillhouse interviewed Orlando Murillo and Bandon in Miami, to whom Lister had recently transferred some property. When interviewed by the OIG, Lister recalled that Bandon had called from Miami to tell him that SA Hillhouse was asking about him. Bandon had told Hillhouse that Lister was "their security agent in Central America." Lister noted that this was "the cover story" because he was in the drug business. IRS reports show that Bandon and Orlando Murillo told Hillhouse that Lister had borrowed about \$7000 to \$10,000 from Orlando Murillo to pay bills, and that Murillo had taken property Lister owned in Crestline, California, as payment. Bandon had handled the transfer of the property.

Once the tax case against Lister was ready, Assistant U.S. Attorney Mark Byrne, handling the matter for the Los Angeles U.S. Attorney's Office, negotiated a preindictment disposition with Lister's attorney. Byrne never spoke with Lister about cooperation during or after his plea. But he did coordinate with the San Diego U.S. Attorney's Office (Assistant U.S. Attorney Amalia Meza), because that office was prosecuting Lister on a drug charge (discussed below), and Byrne endeavored to structure a global disposition of all the charges against Lister in both districts.

On January 2, 1991, Lister signed a plea agreement in which he agreed to plead guilty to one count of subscribing to a false tax return in violation of Title 26, United States Code, Section 7206(1) for the tax year 1986. Lister also agreed to admit that he received income of at least \$79,000 in 1985 that he had knowingly and willfully failed to report on his 1985 tax return. He also agreed to admit that he had received income of at least \$390,000 in 1986 which he knowingly and willfully failed to report on his 1986 tax return. In exchange, the government agreed to terminate the grand jury tax investigation of Lister; transfer the case to the Southern District of California under Rule 20 of the Federal Rules of Criminal Procedure, and recommend that any sentence Lister received on the tax case be concurrent to any sentence that Lister received in the San Diego drug prosecution. Lister entered his guilty plea on April 22, 1991.

## **G. Orange County Prosecution of Lister**

Even while Lister was the subject of the IRS investigation, he was also running into difficulties with local law enforcement authorities. On August 24, 1988, Lister was arrested in Orange County by the Costa Mesa Police after he sold an undercover police officer two kilograms of cocaine. The Costa Mesa

officers then executed a search warrant at Lister's home and found his expired police badge and credentials. After he agreed to be a police informant, Lister was released on his own recognizance.

Judge Craig E. Robison, a Municipal Court judge in Orange County Harbor Judicial District, worked in the Orange County District Attorney's Office in 1988 and handled the prosecution of Lister on the local drug charges. Robison told the OIG that Lister's cooperation involved aiding in the investigation of a real estate agent and a former Orange County judge. Through Lister's cooperation, ten kilograms of cocaine and a substantial amount of marijuana were seized at a motel in Costa Mesa. Sergeant Loren Wierick of the Costa Mesa Police recalled that, although Lister's information proved to be reliable on the ten kilogram seizure, he otherwise was not trustworthy. Wierick recalled Lister making statements about Nicaraguans and the Contras and claiming that he knew "some people," but Wierick said those comments were pretty much dismissed as a "fairy tale." Wierick stated that no one took these statements seriously and that they were not recorded in police records. Wierick noted that Lister "winds a good tale," but that he is often untruthful.

According to Robison, Lister entered a guilty plea for the 1988 arrest, but still had not been sentenced when he was arrested in San Diego by the DEA (discussed below). When Robison learned of that arrest, he informed Assistant U.S. Attorney Amalia Meza that Lister's federal arrest had violated his cooperation agreement with Orange County, and his bail was consequently revoked. Not until 1996 was, Lister finally sentenced on the Orange County charges to six months to be served concurrently with the federal sentence he had already served.

## **H. The 1990 San Diego Prosecution**

In October 1989, an individual named Brian Hicks agreed to sell a kilogram of cocaine to an undercover DEA agent with the understanding that five additional kilograms would be sold upon the successful completion of the first sale. On October 23, 1989, Hicks delivered the kilogram to the undercover agent and was arrested. Hicks agreed to cooperate, and arrangements were made for the undercover agent to meet Hicks' source of supply -- Ronald Lister. Hicks and Lister went together to retrieve two kilograms of cocaine to sell to the undercover agent, and Lister was arrested by the DEA on October 23, 1989. Lister immediately agreed to cooperate and took the undercover DEA agent to speak with his source of supply, Daniel Powell. After the meeting, the DEA got a search warrant for the source's house and confiscated an additional 12 kilograms of cocaine. Lister was held without bail pending trial.

While in jail following this arrest, Lister tried to gather information that would help him to reduce his sentence and get him released on bond. He had his attorney prepare a "resume" that outlined his potential as a confidential informant. It stated that his current employment was as a "security consultant" who had worked for the governments of El Salvador, Colombia, Italy, and Iran; he had worked with the Contras, including Eden Pastora; and he "knows the cocaine trade better than most people who have been exposed in a similar fashion." The document described Lister's connections to various alleged Colombian and Mexican cocaine kingpins and weapons smugglers. It also described Lister's connection to various people who could offer intelligence from El Salvador or Eastern Bloc countries. It offered

information related to Norwin Meneses and Danilo Blandon, noting that, "because of his work with the Contras, Lister knows these individuals very well." The document concluded:

Lister can be a very charming individual. He seems to have the ability to befriend people immediately. . . . He is greatly motivated to assist himself in trying to improve his position. He is facing a potential eight-year State cocaine charge and also a very serious separate Federal cocaine charge. . . He also has a lot of confidence in himself and is fearless. He has a lot of experience being in tight spots and would make an ideal undercover agent. It is my idea to attempt to set Lister up with the right operating agent after getting him out of custody and to have him work for eight months to a year in order to see what he can do. . . . [H]e is highly intelligent and has experience to be one of the most outstanding C.I.s that any agency could have.

During this period (as has been described in Chapter II), DEA SA Jones was gathering intelligence on Blandon. When he heard from an informant that Lister was involved with Blandon, and found out that Lister was in jail on a drug charge, Jones contacted Assistant U.S. Attorney Meza in the San Diego U.S. Attorney's Office, who in turn spoke with Lister's attorney, Lynn Ball, about obtaining Lister's cooperation in the Blandon investigation. Ball advised Jones and DEA SA Michelle Leonhart that Lister had said that he would have to check with the "Agency," meaning the CIA, before talking to the agents. Meza told Ball to check with Lister and "let them know." Ball later told Meza that Lister was willing to talk to them.

Assistant U.S. Attorney Meza and Ball initially entered into an informal cooperation agreement, which was memorialized in a memorandum dated June 8, 1990. The memorandum provided that nothing Lister said in interviews with law enforcement agents could be used against him; and that although no promises had been made by the government, the government viewed Lister as a cooperating defendant and "will negotiate a departure or a plea bargain in the event that it is determined that what Ronald Lister has given is substantial assistance to the Government."

To facilitate Lister's cooperation, Meza and Jones met with Deputy District Attorney Craig Robison in Orange County. Meza recalled that Robison was very upset because Lister had been arrested in San Diego when he was supposed to be cooperating with the Costa Meza police. Robison warned them that Lister was a "con artist" and that he was very "smooth," but Robison agreed to lift the outstanding arrest warrant on Lister. Lister was soon released on a \$500,000 bond to obtain information for the DEA, chiefly to provide records, addresses, and photographs of drug traffickers. Lister was released from prison in order to cooperate on December 20, 1990.

Meza told the OIG that after Lister was indicted on the October 1989 drug arrest, she allowed him to plead guilty to an information charging him with conspiracy to possess a controlled substance with intent to distribute in violation of Title 21, United States Code, Sections 841(a)(1) and 846. Meza stated that Lister was charged with an unspecified amount of drugs to enable his attorney to argue for a lesser sentence.

Lister entered into a plea agreement with the government in exchange for his plea to the information. The plea agreement required Lister to testify truthfully and fully, and submit to interviews with agents of the United States if called upon to do so. The agreement stated that, if Lister abided by the provisions of the agreement, the "Government will recommend a downward departure from the sentencing guidelines. . ." The plea agreement also stated that a further condition of the agreement was that Lister was not to commit any further crimes and that, if he violated any provision of the plea agreement, the agreement would be null and void and that Lister would thereafter be subject to prosecution, and that prosecution could be based on information provided by Lister. Lister entered his plea to the drug charges stemming from his October 1989 arrest by DEA on January 22, 1991.

Meza told the OIG that she had told Los Angeles Assistant U.S. Attorney Mark Byrne, who was handling the Los Angeles tax case against Lister, that Lister was cooperating. Byrne had said that if Lister would enter into a plea to a tax count in Byrne's case, Byrne would terminate his tax investigation and agree that Lister could be sentenced to concurrent time on the tax count.

Lister was thereafter debriefed on his historical knowledge of the Blandon organization by DEA SA Jones. In this debriefing, Lister claimed that he had a "CIA connection" and mentioned the names "Scott Weekly," and "Bo Gritz." Jones told the OIG that he never checked with the CIA to verify Lister's alleged connections with the CIA. He noted that neither he nor SA Gustafson ever believed Lister's claim of affiliation with the CIA.

Lister's cooperation consisted of giving historical information about the Blandon organization, including a written account of his dealings with Blandon in 1984 and 1985. But Lister did not have any information on the Blandon organization subsequent to the execution of the 1986 search warrants on Blandon's and Lister's properties.

## **I. Claims of CIA Affiliation While Lister Was Cooperating**

Gary Webb has alleged that a DEA report dated June 4, 1991, supports his allegation that Lister was affiliated with the CIA. The OIG reviewed this report, which is part of a large DEA investigation called "Operation Green Ice," a money laundering investigation based in San Diego.

Around June 1991, six months after Lister's release on bail, SA Jones received information from a source that Lister was "just using Jones," and continuing to commit crimes while cooperating. While in the San Diego Metropolitan Correctional Center (MCC), Colombian drug dealer Luis Mejia had told the source that Lister had stolen \$500,000 that Mejia had given him to launder for the Colombians. Mejia had been released from custody and became a fugitive, and had asked the source to help get the money back from Lister.

It soon emerged that Lister had in fact stolen this money, and that the Colombians were taking other measures to get it back. Osvaldo Montalvo, a Colombian supplier in Los Angeles, was called in to recover the money from Lister. Montalvo's money-laundering "partner" at the time (unbeknownst to

Montalvo) happened to be an undercover DEA agent working in the "Operation Green Ice" investigation, and the DEA was able to monitor the matter carefully.

When Montalvo and the DEA undercover agent approached Lister, Lister told them that the missing money had been laundered with the assistance of the CIA and that he could not get it back. Lister said that he and the CIA had transported multi-hundred kilogram loads of cocaine from Cali, Colombia and Costa Rica to the United States. He promised to wire the money to Montalvo if he gave the number of his offshore account. Montalvo declined. When the undercover agent asked if Lister was aware of the danger he was putting himself in if he failed to pay back the money, Lister replied that he had nothing to fear since he worked for the CIA. The undercover agent asked Lister if he was also employed with the FBI or the DEA, and Lister responded that he was not. After Lister left, Montalvo announced that he would kill Lister and torture or kill his mother. He proceeded to arrange for a hit squad to kill Lister. Lister's conduct here followed a familiar pattern: claims of CIA ties whenever faced with a threat of prosecution, or, in this case, worse. But there is no evidence that he was in fact connected to the CIA.

Assistant U.S. Attorney O'Neale, who was in charge of the "Green Ice" investigation, told the OIG that the planned hit on Lister for his theft of drug money created a crisis. O'Neale did not want to expose the undercover operation, but also had a duty to warn Lister of the threat to his life. The problem was solved when the DEA orchestrated what appeared to be the random stop of the Colombian "hit team" at an immigration checkpoint. Found in their car was a picture of Lister and a map to his mother's house. All four of the occupants of the car were deported. Montalvo was later prosecuted in Los Angeles for money laundering.

According to Assistant U.S. Attorney Meza, SA Jones confronted Lister and asked whether he was laundering money for the Colombians. Lister denied any involvement. Jones then told Lister that there was a plot to kill him, and offered him protection. Lister declined protection and signed a form acknowledging the threat and refusing to be placed in protective custody. Lister asked for and was given a copy of the form. Later, the undercover agent reported to Jones and Meza that Lister said to Mejia that he worked for the DEA, showing this same form as evidence.

DEA soon executed a search warrant at the Markon Corporation, where Lister was working while out on bail, based on the DEA's information that Lister was continuing to engage in illegal activity. The Markon Corporation was run by an individual named David Scott Weekly. Lister told the OIG that Markon was involved in numerous "totally legitimate" business projects, including attempting to negotiate a better exchange rate on the Mexican peso for clients in the United States. Documents supporting the government's assertion that Lister was still involved in illegal activities were recovered, including what appeared to be a money laundering proposal addressed to Jose Urda, a target of Operation Green Ice. Thereafter, in July 1991 the government moved to revoke Lister's bail because of his continuing criminal activities. However, rather than jeopardize Operation Green Ice, the undercover agent's safety, and the identities of any sources, Assistant U.S. Attorney Meza based the motion to revoke Lister's bail on his admission to SA Jones that he had traveled out of the country while on bail without permission.

The search at Markon brought to light yet another effort by Lister to claim "national security" connections. Agents found letters from Lister to "Scott" dated from July to December 1990. Lister told the OIG that these were letters that he had written to David Scott Weekly while he (Lister) was in prison to keep Weekly informed of what he was doing. Lister noted that he had believed Weekly to have some connection to the Defense Intelligence Agency that could help Lister get out of jail somehow. Lister stated:

I wanted him to know I was scraping down, I wasn't concealing anything, I wasn't -- because he was putting a lot of trust in me. He said, you know, Ron, he said, I told you you should never be in the drug business to begin with, and it's no good, and look what happened to you. Now, I'm going to give you a chance and a job and you want to work here you've got great contacts and things. And so I felt obligated to always keep him informed of what I was doing.

An examination of the letters reveals that, with one exception, they are nothing more than descriptions of drug traffickers and money launderers that Lister knew and how these contacts might be used by Markon. However, one of the letters, dated July 17, 1990, stated:

Pastora came up in 1985 - as he received cash from Danilo for the Contra causes of A.R.D. E. group in Costa Rica and LA. They are purposely staying away from anyone who might be connected with the Agency, like Pastora. They would like me to tell them who they can't get because of a nat'l sec. block. They are extremely afraid of a nat'l sec. block. So their logic is to go after above listed people and assoc. who they can go after on a direct overtact relationship between cash and dope where personal gain is clear and no Contra activity appears. They say they don't even want to know about the Contra organization or anything related. [Emphasis in original.]

When asked by the OIG to explain this statement, Lister stated that the "they" who were allegedly worried about a "national security block" were the San Diego U.S. Attorney's Office, Assistant U.S. Attorney Amalia Meza, and DEA SA Chuck Jones. Lister told the OIG that he did not know too much about this and was only repeating what Meza and Jones had told him. Lister said that SA Jones had told him, "Give us information, but not too much." Lister emphasized that he had cooperated completely with the government, but Meza and Jones had been very unfair to him and sent him to jail.

Assistant U.S. Attorney Amalia Meza, Assistant U.S. Attorney L J O'Neale, SA Charles Jones, and SA Judy Gustafson all deny that the Lister and Bandon prosecutions were anything other than very ordinary drug prosecutions. All dismiss as ridiculous the notion that they were concerned about "national security blocks" or that they were contacted by anyone outside of their normal chain of command. We found their accounts far more credible than Lister's. Throughout Lister's contact with the government, he has demonstrated a willingness to say whatever will help him most at any given moment. He was not even able to keep his story consistent in his interviews with the OIG. When initially interviewed, he told the OIG that allegations of CIA intervention in the prosecution of the Bandon organization had merely been

a defense tactic in the "Big Spender" trial that created a "myth." Later, he completely changed his story, claiming that the U.S. Attorney's Office and DEA were in fact concerned about CIA intervention in the case.

Assistant U.S. Attorney O'Neale told us that he became aware that Lister was making claims of CIA affiliation during Operation Green Ice, but did not take the claims seriously. One reason for this was that Lister had reported that his CIA contact was David Scott Weekly. O'Neale was familiar with that name. In 1987 or 1988, O'Neale had indicted James Gordon "Bo" Gritz for passport fraud. When Gritz had claimed to be associated with the CIA, DIA, and National Security Agency (NSA), O'Neale had contacted the intelligence agencies regarding this claim, and David Scott Weekly's name had come up as someone affiliated with Gritz. O'Neale learned through his inquiries in that case that neither Gritz nor Weekly was an intelligence agent, asset, or operative, and that Weekly had used the "CIA defense" unsuccessfully in an explosives prosecution against him in Oklahoma, claiming he was transporting explosives because he was working with the CIA to train the Mujahadeen in Nevada. (See discussion of David Scott Weekly and this matter in section L, below).

Meza told the OIG that she thought Lister's statements about the CIA were "all nonsense." She never took it seriously enough to look into it and concentrated on the drug investigation and prosecution. Meza stated that when she was investigating the Blandon case, she was only interested in getting information on cocaine and did not explore Lister's claim with the CIA. She stated that she never discussed the Contras with Lister, and added that, in retrospect, Robison was correct in describing Lister as a "con artist."

## **J. More Allegations by Lister Regarding the CIA at the Time of His Sentencing**

Lister's suggestions of intelligence involvement became an issue at his sentencing in San Diego in January 1992.

Although Lister's plea agreement indicated that the U.S. Attorney's Office would move for a downward departure in his sentence based on his "substantial assistance" in other investigations, it refused to do so, claiming that Lister had breached the agreement by committing other crimes while he was supposed to be cooperating. Lister responded with accusations that the government was angry because intelligence agencies halted the Blandon investigation and the government thought Lister was responsible. On September 5, 1991, District Judge Rudi M. Brewster ruled that Lister was entitled to an evidentiary hearing on the issue of whether he had committed further crimes. Assistant U.S. Attorney Meza explained to the OIG that she tried to avoid a hearing into the matter because it would have jeopardized the ongoing Green Ice investigation.

On January 6, 1992, Lister's lawyer, Lynn Ball argued that the government's refusal to move for a downward departure in Lister's sentence was "arbitrary and capricious and made in bad faith." The motion stated:

There may be other reasons why the United States Attorney's Office for the Southern District of California has not been able to proceed on an Indictment of defendants identified by Ronald Lister. These reasons may have more to do with so-called "national security" and political decisions made by the Attorney General, the State Department, the Central Intelligence Agency and other agencies of which this defendant and the United States Attorney for the Southern District of California has no control. A decision not to prosecute individuals in order to avoid embarrassing high Government officials for possible complicity in drug dealing should not be sufficient reason for this defendant not to be able to have the advantage of his plea bargain for cooperation. . . . The Prosecutor, Customs and DEA Agents in this particular case may be irritated because other branches of the Government aren't interested in proceeding with the case, but that is hardly under the control of this particular defendant.

On January 8, 1992, Lynn Ball wrote a letter to Judge Brewster outlining the "substantial assistance" rendered by Lister. The letter noted Lister's cooperation against four individuals unrelated to the Blandon organization, and described Lister's cooperation against the Blandon organization and Norwin Meneses, including testifying in the grand jury four times, "provid[ing] detailed physical evidence," providing a complete chronology from 1982 to 1986, and identifying approximately 80 people affiliated with the Blandon drug smuggling organization. Ball then stated:

Unfortunately for the United States Attorney's Office, I have heard that the U.S. Intelligence agencies have used their influence to prevent prosecution of the Blandon drug smuggling organization. It strikes me that the Government in this case -- the local DEA Agents -- feel that Ronald Lister had something to do with the decision not to prosecute these people. In fact, Lister's only involvement with covert forces has been his involvement as a security expert and consultant for the government of El Salvador and to a certain extent, during the Contra dispute, he provided security information. I have heard that the Government feels that Ron Lister used some influence in order to get the prosecution of the Blandon drug organization stopped and the Government is angry about that. In fact, that is not true. Lister had no influence over anybody and he had understood that two or three times prior to this time, there had been an attempt to prosecute the Blandon smuggling organization and it had been "quashed" by U.S. Intelligence agencies, including the Central Intelligence Agency and the State Department because it would have been embarrassing.

The letter did not cite any factual basis for Ball's conclusions. Nor did it say where Ball had "heard" that intelligence agencies had interfered with the prosecution of the Blandon drug organization.

On January 14, 1992, Assistant U.S. Attorney Meza filed a motion entitled, "Government's Supplemental Declaration of Charles Jones in Support of Government's Response and Opposition to Defendant's Motion for Evidentiary Hearing." The attached declaration of DEA SA Jones stated that there was "absolutely no truth" to Ball's assertion that intelligence agencies had halted prosecution of a drug smuggling organization or that interference by the intelligence community had caused the



government to retaliate against Lister.

On January 14, 1992, Ball submitted another letter to Judge Brewster that included portions of a declaration by Lister. Lister denied that he had been involved in money laundering while working with the DEA, and stated that he had requested permission from the DEA to travel outside of the United States, and had cooperated fully. Lister stated that he believed that the government was irritated with him because it was unable to pursue the Blandon investigation. He wrote in the declaration:

This Blandon investigation goes back a long time. In August of 1989, I was asked to attend a meeting by a Costa Mesa police investigator . . . . At that meeting, F.B.I. Agent Hales [sic] wanted to talk about the Blandon case. I told him I could do a lot of things for him but I really didn't think I could talk about the Blandon case without first seeking permission from another agency. He was very understanding and told me that he personally had followed the history of these people since the late 70's. He advised me that in 1986, the main players and myself came very close to indictment, but the Government chose not to proceed because of "matters of national security." At that time, it was blocked and I told them I would contact someone from that "other agency" and see what could be done. I said I had no reason not to help him if I could. He told me to forget it and that he was asking me please not to contact anyone from this particular intelligence agency.[\(48\)](#)

Lister also stated that he had been contacted by Meza and Jones and had told them that he was willing to cooperate because it was the only way he could get out of jail. He stated that he "informed them that this matter [regarding Blandon] was very sensitive and that it might cause conflict with matters of national security. Jones assured me that these old blocks were no longer valid and the old systems were dead. He said this was 1990 and I had better wake up."

Lister concluded his declaration by stating that he "spoke to a source that I have in the Central Intelligence Agency and was told that as long as the U.S. Attorney did not get in the administrative trough in their investigation, everything would be okay. I was told that if a certain name came up then it was all over and they would be shut down." Lister noted:

It is my understanding that this case has been taken out of Miss Meza's hands and Mr. Jones' hands and bumped up to the Drug Enforcement Agency [sic] in conjunction with other agencies under a "special project" division. The Justice Department and the U.S. Attorney's Office still have involvement and a certain amount of control, but a different disposition will probably occur with regard to the principal people. I believe that this will be a disposition not to the liking of Miss Meza and her group. This is not my fault. I feel that the U.S. Attorney's Office is attempting to blame me for something that I have no control over and get out of their plea bargain with me.

Meza told the OIG that Lister had made all sorts of wild and unfounded allegations about the government's anger at Lister because intelligence agencies had halted the Blandon investigation. Meza

stated that she had no contact with any intelligence agencies and received no request not to pursue the Blandon case. Meza stated that the case was transferred from her to Assistant U.S. Attorney O'Neale based on a decision as to the best allocation of resources.

SA Jones also told the OIG that the Blandon case was handled as a normal drug investigation. Jones described Lister as a "pathological liar."

No evidentiary hearing was held at the time of sentencing. Assistant U.S. Attorney Meza argued that Lister was not entitled to a further reduction in his sentence because he had engaged in illegal activities and violated a court order by traveling outside of the country in furtherance of those activities. The government relied on information received from two cooperating defendants, a recorded telephone conversation, Lister's admission at the time of his arrest and the documents found in the course of a search.

The Probation Office calculated Lister's guideline range as 121-151 months, based on the total quantity of cocaine involved in the conspiracy -- 13 kilograms had been recovered from Hicks and Lister's source. The probation officer recommended the higher end of the guideline range because, had Lister been sentenced on his case in Orange County, it would likely have increased his criminal history category and therefore his guideline range. Judge Brewster sentenced Lister to 97 months incarceration and 60 months probation.

## **K. Lister's Appeal of His Sentence and Release**

Lister appealed his sentence on the grounds that the government failed to honor the plea agreement with him and failed to move for a downward departure on his behalf. On January 28, 1993, the United States Court of Appeals for the Ninth Circuit issued a memorandum opinion finding that the district court had correctly concluded that the plea agreement in the drug case was void: The agreement had bound Lister "not [to] commit any further crimes," and his violation of that provision rendered it "null and void." The appellate court also found that "Lister's release on bond was conditioned upon his remaining within the Southern and Central districts of California. Lister's travel to Mexico violated the conditions of his release, and is punishable by criminal contempt." The court further stated: "Since Lister admitted traveling to Mexico, there was no factual dispute regarding his violation of the conditions of his release on bond and no need for an evidentiary hearing." Although the court therefore affirmed Lister's sentence and conviction on the San Diego drug charges, it overturned his conviction on the Los Angeles tax charges, finding that the district judge who had accepted Lister's guilty plea in that case had failed to properly advise Lister of his rights.

The Los Angeles U.S. Attorney's Office chose not to pursue the tax prosecution further because it would not have affected the prison term Lister received. Assistant U.S. Attorney Byrne stated that if the Los Angeles office had sought to prosecute Lister again on the tax charge, Lister would have received concurrent time in the tax case with the San Diego drug case. The Los Angeles U.S. Attorney's Office therefore thought it was not worth pursuing the tax case after Lister's successful appeal.

Lister was released from prison in 1996. SA Gustafson recalled that, when Lister dropped by DEA offices to pick up his belongings shortly after he was released, he again discussed his connection to the CIA and commented that Assistant U.S. Attorney Meza would not be able to obtain any information from the CIA about his relationship with it. Lister told the OIG that he is currently in the leasing business, leasing equipment for "everything -- agriculture equipment, mining."

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48. FBI agent Hale did have dealings with Lister during the period when Lister was cooperating with the Costa Mesa Police. As noted in Chapter II above, Hale is no longer alive, but other FBI agents confirmed that they dealt briefly with Lister in the investigation of an individual unrelated to the Blandon organization. The contact appears to be the only interaction between the FBI and Lister.

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## **L. David Scott Weekly**

Gary Webb of the San Jose Mercury News alleged that Lister's ties to the CIA were through David Scott Weekly. Webb stated that Weekly, also known as "Dr. Death," was working on an assignment to free prisoners of war from Southeast Asia for the National Security Council (NSC) and had just finished working on a State Department-authorized guerilla training program for Afghan rebels in the Nevada desert.

Gary Webb later contacted the OIG and suggested that we review Exhibit 5 to the Congressional deposition of Criminal Division Deputy Assistant Attorney General Mark Richard in the Iran-Contra hearings. This exhibit was Richard's handwritten notes of a conversation with the U.S. Attorney from Oklahoma on December 11, 1986 in which the arrest of Weekly on charges of illegal transportation of explosives was discussed. Weekly had claimed in taped conversations that he was "tied into the CIA and Hasenfus" and reported to the "people reporting to Bush." The notes indicate that ATF had checked with the CIA and found that Weekly had no affiliation with the Agency. The notes also indicate that Weekly's toll records showed calls to Nestor Pino, Special Assistant Undersecretary for Security Assistance; Tom Harvey of the NSC in Alexandria, Virginia; and U.S. Customs.

The OIG investigated David Scott Weekly's alleged relationships with the CIA or DIA, because of Webb's claims and because of Lister's claim to LASD deputies in October 1986 that his contact at the CIA was "Mr. Weekly."

### **1. OIG interview of Weekly**

FBI records indicate that Weekly attended the U.S. Naval Academy but dropped out of the Academy, joined the Navy and was sent to Vietnam. He was discharged from the Navy in 1970 and awarded the Vietnam Service Medal with two bronze stars and the National Defense Service Medal.

When we interviewed Weekly, he gave us very little background information about himself, stating that he felt very reluctant to meet with the OIG at all. He said he met Lister in the early 1980s, either 1980 or 1981. Weekly said he had been told that Lister worked on security matters and traveled to South and Central America. The two became friends, and Lister began soliciting Weekly's advice on security questions. Weekly said a lot of these questions were "stupid" or "irrelevant," such as, "Can I take this type of equipment out of the country?" Weekly said he answered some of these questions and ignored others. He wanted Lister to do his own research on these questions. Weekly stated that Lister probably had come to him for advice after hearing the stories and the myths that were circulating in the media about him. Weekly claimed that he had been deeply involved in POW/MIA issues during the 1980s, working with a government agency that Weekly refused to name.

Weekly described Lister as a good "resource guy," who could talk anyone into or out of anything and knew how to track down sources of information. But he said that Lister "tended to exaggerate." When

Lister discussed matters associated with his life they tended to be "bigger, faster, and shinier." Weekly maintained that he knew little about Lister's security company. Lister kept the details of his company quiet and Weekly did not know the reasons for his secrecy. Lister never mentioned having any ties to the CIA to Weekly. According to Weekly, Lister was constantly traveling, often to Central America or Europe, purportedly to negotiate security contracts, but he would never discuss his clients. Weekly said he thought that Lister's security business provided personal security, advised on creating secure environments, and sold security equipment.

Weekly also related that he believed that Lister had sought to cultivate officials in foreign governments in order to get business. He thought Lister had some involvement with the Minister of Defense for El Salvador or Brazil and a ranking Air Force officer in a Latin American country. According to Weekly, Lister did not actually have a particular commodity to sell. Rather, he would see what was needed and convince clients that he could meet those needs. Weekly was not sure that Lister could have made a living through his security business.

Weekly recalled that, in approximately 1980, he had gone with Lister to El Salvador for a demonstration on special tactics and operations for the Minister of Defense. Weekly said that there was no discussion of drugs during the trip. He said that had he stumbled on a drug operation, he would have tried to sabotage it. He had warned Lister that he would have nothing to do with drugs, and that he would refuse to take the trip if there was any drug tie. Weekly stated that he had thought it was necessary to make such statements because he knew that the region of the world had a lot of drug activity, but he had no information at the time that Lister was involved in drugs.

Weekly stated that, to the best of his knowledge, he was never hired by, or gave any help to, the FDN or any organization or person associated with the Contras. Weekly qualified his statement only because he said many people in Central America used pseudonyms and were not necessarily who they claimed to be. He noted that he never met with Eden Pastora or any other leader of the Contra movement. Curiously, however, when LASD investigators had asked Weekly whether he had ever met Pastora, Weekly had replied "I can't talk about that." Avowing that he had never done any sales business with Pastora, Weekly had said: "I never met him personally, let's put it that way." Weekly then referred to Senate hearings in 1986 and announced that the Senate Select Committee on Intelligence had decided that, "Nobody knows anybody and nobody did anything. Hell, if they decided, that's got to be the way it is."

Weekly recalled that Lister had discussed the Contras, but had never mentioned Blandon. Lister had said he was supporting the Contras by selling to them and making himself available to them in El Salvador. But Lister had not approached Weekly to help with the Contras.

Weekly said that his relationship with Lister ended in the 1980s. He said the last time he spoke to Lister was probably 1990 or 1991, and the last he heard, Lister was in prison. Weekly added that Lister "had probably arranged to get out early," since he was the type to cooperate in exchange for early release.

We asked Weekly whether, during the October 1986 search of Lister's home by the LASD, Weekly was in Washington, D.C., meeting with a National Security Council contact as a San Jose Mercury News report had claimed. At first, Weekly said he thought it was unlikely, because he thought he had been incarcerated in a federal prison in October 1986. After further reflection, however, he stated that he was not incarcerated until February 1987, following the "Burma debacle," which he said he could not talk about. He then said that it was likely that he was in fact meeting with an NSC contact in Washington, D.C., in October 1986 about POW/MIA issues.

Weekly confirmed that he has been called "Dr. Death." He explained that this name goes back to his days doing special operations, and had to do with his familiarity with weapons. He stressed that this name far predated any involvement with Lister, and suggested that it might have appeared in articles related to his POW/MIA activities.

## **2. Federal Investigative Files on Weekly**

The OIG located two DOJ files on Weekly. The most recent is a prosecutive file on Weekly reflecting that he was convicted of bank fraud in the Southern District of California, for withdrawing funds from his bank account that had been mistakenly placed there by the bank.

The other is a file from the U.S. Attorney's Office in the Western District of Oklahoma concerning an investigation of Weekly that the Bureau of Alcohol, Tobacco and Firearms (ATF) began after learning that on September 17 and 18, 1986, Weekly had shipped two loads of C-4 explosives on commercial planes from Oklahoma City to Las Vegas. In the course of its inquiry, ATF learned that Weekly had been an informant for U.S. Customs for approximately five years, providing information on narcotics and munitions. His Customs handler reported that Weekly had attended the Naval Academy but had flunked out in his second or third year, and had then become associated with the Navy Seals. Through his Navy association, he had gained contacts in the intelligence community, including the CIA and NSA.

When interviewed by ATF agents, Weekly had initially denied that he knew the C-4 would be shipped by commercial plane. Then he admitted that he had obtained the C-4 for use in the Nevada desert in training Afghani "freedom fighters." He said that he and Bo Gritz were involved in training these "freedom fighters" in programs that were handled "nebulously" by the United States government and paid for by different private "trading companies." Asked about records showing he had made telephone calls to the National Security Council and Colonel Nestor Pino at the State Department, Weekly stated that he had dealt with Tom Harvey at the NSC about POW matters he was working on and with Colonel Pino concerning the "freedom fighter" programs. Weekly told the ATF agents that he had no direct contact with the CIA.

Weekly also told ATF agents that he had been involved with the Contras in the past, "when Pastora was in power," but that, with Pastora no longer in power, he had nothing else to do with the Contra issue. Weekly later claimed to the ATF that he had been very close to "controlling the Contras in Nicaragua," but that the "deal fell through" with the fall of Pastora. Weekly told ATF he was going to provide

banking and bank accounts for Pastora -- whom he had met through Ron Lister -- and the entire Contra operation. Ronald Lister told the OIG that Weekly had no relationship with the Contras to his knowledge, and that he had never seen Pastora and Weekly together. As discussed above, Weekly told the OIG that he had never aided the Contras or met Pastora.

According to the ATF file, the U.S. Customs agent working with Weekly told ATF that Weekly was acting at the direction of Customs when he was involved with the Contras. Weekly's informant file at Customs does not reflect any discussion of the Contras or any other political group. The OIG interviewed Weekly's contact at Customs. The agent told us that Weekly had no relationship with the Contras and that Weekly made false statements to the ATF agents in an attempt to avoid prosecution for the C-4 shipment. The agent admitted that he did not expose Weekly's false statements to the ATF agents, as he should have done, because of his personal relationship with Weekly and his desire to help him.

In connection with his shipment of C4 explosives on the commercial airline, on Dec. 23, 1986, Weekly pled guilty to interstate transportation of explosives and was later sentenced to a prison term of five years. Thereafter, he filed a motion to withdraw the plea, which stated that he had been promised a sentence of probation by ATF in exchange for his cooperation, and claiming that the operation he had been involved with had been sanctioned by the government. In support of this motion, Weekly's counsel submitted an affidavit by Colonel Nestor G. Pino-Marina, United States Army. Pino reported that, in the summer of 1986, he had been assigned to the Department of State as Military Assistant to the Under Secretary of State for Security Assistance, Science and Technology. During that time, Pino had met with retired Army Lieutenant-Colonel James "Bo" Gritz, who expressed interest in training Afghan rebels. Pino was concerned that Gritz was not aware of the level of Soviet penetration of the rebel factions, and therefore sought to introduce Gritz, through a colleague named William Bode, to an Afghan freedom fighter he knew. Pino stated that Gritz dropped off a copy of his "program of instruction" for the training with a note indicating that the first group of Afghan freedom fighters had completed training. Pino noted that his discussions with Gritz had been on personal basis, and were not sanctioned by the United States government. Pino stated:

Neither I nor Mr. Bode authorized, coordinated, supervised, encouraged or discouraged a training program for the Afghan Resistance, nor, to our knowledge, did any other official in our office, the Department of State, or any other government agency. . . . That notwithstanding, I am convinced that the effort taken by Colonel Gritz to train Afghan Freedom Fighters are [sic] in consonance with and complementary [sic] of U.S. policy for Afghanistan and that Colonel Gritz and Mr. Weekly saw it that way. . . . I believe strongly that whatever actions have warranted the imprisonment of Scott Weekly were inspired by a strong desire to support the Afghan resistance against Soviet occupation and by an even stronger desire to advance the interests of the United States. For these reasons, I urge reconsideration and lenience for Mr. Scott Weekly.

The district court held a hearing into Weekly's motion, at which time Weekly dropped his allegation that he had been promised probation in exchange for his cooperation. However, the prosecutors agreed to a

resentencing in the case because they had become aware that Weekly's handler at the U.S. Customs Service had promised to send a letter detailing Weekly's past assistance to the government, but had failed to do so.

At his resentencing, Weekly testified that Pino and Bode had introduced him to a "CIA operative" who was his Afghan connection. This operative, named "Rashid," was to advise Weekly's group on "certain key elements, with the permission of the Agency, and with direction by Bode, to assist us in circumventing wasted time and making things a bit more efficient." Weekly also testified that Pino and Bode had been aware of the training plan and that the plan included explosives. Bob Gritz testified that Bode had looked over the plan and made some changes to it. He stated that he, Weekly, and the others in their group operated with the "blessing" of Bode and that it was his understanding that the money to pay for the operation came from Stanford Technology, a company owned by Albert Hakim. Weekly's attorney argued for his immediate release. The government made no argument and requested only that if the court released Weekly, probation should be imposed. The court sentenced Weekly to time served and placed him on probation for three years. Weekly had served 14 months in prison.

According to the CIA OIG, CIA records indicate that Weekly was involved in a private effort in the early 1980s that purported to seek the freedom of American POWs and MIAs. Upon arrival in Thailand in November 1986 he was deported. The CIA informed ATF that no information was found indicating that the Agency had a relationship with Weekly.

As we have previously stated, the OIG has not made, and indeed cannot make, any final assessments about many of the claims regarding the relationship between United States intelligence agencies and the Contras that have emerged in the course of our investigation. To rely on Lister's statements about Weekly or Weekly's statements about Lister would be particularly foolhardy.

## **M. Timothy LaFrance**

Gary Webb contacted the OIG and suggested that we should interview Tim LaFrance of San Diego, because his name had also arisen in a document submitted by Deputy Assistant Attorney General Mark Richard during the Iran-Contra hearings in 1987. As discussed in section L, above, the document is a note that Richard made during a telephone conversation with the Oklahoma U.S. Attorney's Office regarding the planned arrest of David Weekly for transportation of explosives aboard a commercial airline. The notes indicate that Weekly had boasted of ties to the CIA, and state "Weekly works for Tom [sic] LaFrance out of San Diego and Bob Gritz (MIA)."

According to an article published in The Los Angeles Weekly (The Weekly) on May 22, 1997, an individual named Timothy LaFrance worked with Pyramid International Security Consultants, the company that Lister founded in 1980. The Weekly quoted LaFrance as saying that Pyramid was a "private vendor that the CIA used to do things [the CIA] couldn't do." It also reported that LaFrance had claimed that he had gone to El Salvador with Lister under the cover story that they were selling security systems to the Salvadorans. According to The Weekly, the real mission of the trip was to provide



weapons to Contra forces based in Honduras. LaFrance was said to have claimed that Scott Weekly, who on occasion worked for both the CIA and the DIA, and Richard Wilker, a former CIA agent, were also involved in this operation. LaFrance was quoted as saying that although Lister was not getting a paycheck directly from the CIA, he was connected through Wilker.

When interviewed by the OIG, LaFrance said that his company, LaFrance Specialties, manufactures automatic machine guns and sells them to SWAT teams, other law enforcement agencies, and foreign governments around the world. Indeed, ATF records reflect that LaFrance is a licensed dealer for this type and other types of weapons. LaFrance also said that he speaks fluent Spanish and has dealt with numerous governments in Latin America. According to LaFrance, Pyramid Security was run by Richard Wilker, who claimed some CIA affiliation. LaFrance believed that Wilker once did have some contact with the CIA, but he also had heard that Wilker was using fake CIA regional letterhead for some of his correspondence. LaFrance stated that he was not aware of any affiliation between Pyramid and the CIA. (According to the CIA OIG, Wilker never had any relationship with that agency.)

LaFrance told us that he had worked for Pyramid Security in El Salvador, but explained that going to El Salvador with Lister and Wilker was like working with the "Keystone Cops." Lister and Wilker would argue loudly about why they were traveling under their real names and not using fake passports. LaFrance commented that the two were a "SNAFU looking for a place to happen." He noted that he had done some legitimate work for Pyramid in El Salvador; he had performed a weapon demonstration and overhauled and repaired automatic weapons seized in the Salvadoran civil war. But neither he, Lister, Wilker, nor Pyramid had manufactured weapons in El Salvador for the Contras, or airlifted weapons to the Contras in Honduras. LaFrance noted that he was not aware of any affiliation between Lister and the CIA.

When we read to LaFrance portions of the article in The Weekly that quoted him, LaFrance avowed that the article was completely inaccurate and added, "No wonder the writer never sent me a copy of it." LaFrance stated that he did tell The Weekly that there were operations manufacturing weapons in downtown San Salvador that he believed were to supply the Contras. LaFrance stated, however, that this operation was run by the Salvadoran military and that outside contractors such as himself or Pyramid had not been involved.

The article in The Weekly also claimed that a May 12, 1987 FBI report from Mobile, Alabama supports its allegations. The report is a record of interview of Frederico Cruz by FBI agents acting on behalf of the Iran-Contra Independent Counsel. Cruz said he owned the Ramada Inn in San Salvador, and he reported that Eugene Hasenfus -- who was the only American survivor when the Sandinistas shot down one of the Contra resupply planes in October 1986 -- and individuals named "Cooper, Sawyer, and Hamilton," were staying at his hotel at "the time of the airplane being shot down in Nicaragua." Cruz reported that after the crash, someone cleaned out everything from the Americans' rooms. The last paragraph of the report states:

CRUZ's main purpose in requesting the interview was to request help from the [Office of

Independent Counsel (OIC)] to collect money he claimed was owed by RON LISTER. LISTER was in San Salvador in 1981 or 1982 and stayed 2 or 3 months. CRUZ claimed that LISTER was selling weapons to the Contras. LISTER allegedly left El Salvador owing CRUZ a large amount of money. CRUZ requested that the interviewing agents assist him in collecting this money. This request was declined. . . . CRUZ also requested that the interviewing agents do whatever possible to allow CRUZ to come to the USA for citizenship. CRUZ was advised that the OIC could not aid in this matter and that he should contact the U.S. Embassy in El Salvador to initiate his request for citizenship.

## N. Conclusions

Based on our extensive review of Ronald Lister's activities, we reach the conclusion that Lister -- a twice convicted drug trafficker who has also been the subject of several FBI investigations regarding his "security business" --had no affiliation with the CIA, as he from time to time has claimed, and as others have claimed.

The available evidence supports the conclusion that his ties to the Contra movement were mostly through Blandon and were not extensive. It appears that, while Lister certainly wanted to be involved in supplying the Contras with weapons, he was never able to make such an arrangement.

In his interview with the OIG, Lister admitted that he had never been involved with the CIA, and that he had used it as a "ruse" to get law enforcement off his back and to avoid having to cooperate against his friend Blandon. Lister stated:

I may have said something like this [that he had an affiliation with the CIA] to [the FBI], but it was just a ruse. It was nothing to it. There was nobody to talk to about that. It was just my way of probably getting him to back off. Because you've got to remember, I just explained to all three of you, I spent a lot of time with Meneses and more time with Danilo and his family, and here I've got myself in trouble, I'm using coke, my head's not straight at all, and I'm doing all these good things for them, and I'm willing to get the bad guys, but you don't want to go back to do anything against [Blandon's] family.

Lister noted that his allegation that Blandon was involved with the CIA was an "opinion" based on "the fact that Blandon was involved with the Contra fundraising. And in doing that, there was an impression, even though I'm telling you he was not involved with the CIA, that maybe he and other people involved were. And it just sounded like a good thing to say at the time."

In the course of our investigation, a common theme emerged when people who knew him described Lister. They characterized him as a "con man," a "bullshitter," and "a liar," but admitted that he is very charming and a great salesman. Lister told a number of these witnesses over the years that he was affiliated with the CIA, but all said they did not take him seriously. The OIG, too, did not find Lister to be credible or reliable. He changed his story frequently in the interview when confronted with

documentary evidence that disproved his statements.

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## Chapter VI: Ricky Ross

Ricky Ross was a central figure in the "Dark Alliance" series published in the San Jose Mercury News. According to the series, he not only was the trafficker who put Bandon's drugs on the street, he was the source of the crack epidemic in South Central Los Angeles, indeed, the entire United States. And, in an interesting twist, the series came to play a central role in the trial of Ross in 1996, when he tried to use its allegations as a shield against prosecution. In that case and elsewhere, Ross has claimed that he was the unwitting pawn of the United States government, which supplied him cocaine through Bandon, that he was unfairly targeted for prosecution, and that his prosecutors prevented him from getting a fair trial in which he could air his charges of official perfidy.

The OIG has endeavored to examine the facts behind Ross' claims. To this end, we interviewed, among others, Ross, Bandon, Ronald Lister, an FBI informant from Los Angeles (LA CI-1), and Bandon associates Ivan Torres and Carlos Rocha, as well as the law enforcement agents and the Assistant United States Attorney, L. J. O'Neale, involved in their prosecutions. Ross associate Ollie Newell refused our request to be interviewed while in prison in Indiana and did not return calls made to him after his release. The OIG also reviewed DEA and FBI files on Bandon and Ross; the trial transcripts and U.S. Attorney's Office files from the San Diego and Ohio prosecutions of Ross and the "Big Spender" trial in Los Angeles; and various statements made by Ross to the media.

### A. Ross' Criminal History

Aside from the federal investigations and arrests of Ross (discussed below), his criminal record reflects a number of local arrests, but few convictions. A 1978 burglary charge was later dismissed. The disposition of a July 1981 arrest for assault with a deadly weapon is not indicated on Ross' criminal record, nor is the disposition for a March 1982 grand theft auto charge. He obtained an acquittal on July 1984 charges of receiving stolen property. An August 1984 charge for providing false identification to a police officer was later dismissed. In June 1986, Ross was again charged with grand theft auto, but the charges were dismissed the same day. On July 5, 1987, Ross was charged with assault with a firearm on a peace officer and possession for sale of a controlled substance. This charge was later dismissed due to police misconduct. (This charge will be discussed in detail below.) On November 29, 1989, Ross was arrested for assault on a police officer. According to the Presentence Report prepared by the United States Probation Department, this charge was dismissed on April 5, 1990 because of Ross' "pending federal cases in other states."

### B. Ross' Statements about his Drug Empire to the Media and OIG

Even as Ross was avoiding prosecution, he was building a drug-dealing organization that, at the peak of his business in 1984 and 1985, according to Ross, was bringing him profits of \$1 to \$2 million a day. He later told Los Angeles Times writer Jessie Katz: "You know how some people feel that God put them down here to be a preacher? I felt that he had put me down to be the cocaine man." In this 1994

interview, Ross told of having workers that he paid \$1,000 a week as bodyguards, lookouts, drivers, money counters, crack cooks, and garbage men to dispose of incriminating evidence. Katz wrote that Ross had converted "a curbside operation into ... the Wal-Mart of cocaine" and that "his coast-to-coast conglomerate was selling more than 500,000 rocks a day."

According to Katz, Ross would pick up million-dollar shipments in armed convoys of inconspicuous cars, one of which was always ready to speed off as a decoy. The organization's cooks used boat oars to convert huge pots of powder cocaine into crack, working in a "cook house" with digital scales and a restaurant quality gas stove. Ross told Katz that he had a money house with a one-ton safe and currency-counting machines, a crack house with an underground tunnel leading from a closet to the street, and a party house with a satellite dish, NBA-caliber basketball hoops, and a maid. He recalled that one day he just started counting money and ended up looking at a pile of over \$2.8 million in cash. Katz reported that, "when the market exploded in 1984," Ross was dealing directly with the Colombian cartels, who supplied him with 50 to 100 kilos a day. With that, Ross was able to operate dozens of "rock houses;" operate three "ounce houses," which serviced hundreds of mid-level dealers; and service "his own private list of V.I.P. customers," about 30 to 50 "big-time dealers."

Ross told the OIG that at the height of his own dealing, he supplied kilograms of crack to customers in St. Louis, New Orleans, Texas, Kansas City, Oklahoma, Indiana, Seattle and other cities in California. Some people just bought quantities of crack on a regular basis. Others were more like partners, whom Ross would teach the business and take a share of the profits. Ross also ran crack houses in Los Angeles where he distributed his own crack. The buyers at Ross' crack houses were generally buying for resale on the street corner, not for personal consumption. Ross stated: "What we called it was like, we called it the double-up, you know, when you go and you spend \$100, and you can make \$100. So it was like a job almost where you can invest. If you got \$100 to invest, you can turn \$100 into \$200." Ross noted that "thousands" of people worked for him at the height of his business, and that he directly controlled about 30 people.

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## C. The Roles of Ross and Bandon in the Spread of Crack

The San Jose Mercury News series, "Dark Alliance," made certain assertions about Ricky Donnell Ross' and Oscar Danilo Bandon's roles in the emergence of crack cocaine in South Central Los Angeles and across the nation. The OIG investigation has surveyed social science literature, reviewed data from law enforcement agencies and federal public health organizations, and interviewed social scientists and law enforcement officials in an effort to analyze the articles' claims pertaining to the crack cocaine market.

The Mercury News makes three principal allegations concerning the rise of crack cocaine in Los Angeles and in the United States. First, the Mercury News alleged that cocaine was not available in South Central Los Angeles until Bandon and Ross made it so. The articles described cocaine as "a drug that was virtually unobtainable in black neighborhoods" until Bandon brought it to South Central Los Angeles "at bargain-basement prices." The articles represented that Ross' drug network was the first in the nation to market crack cocaine and was dependent on cocaine supplied by Bandon.<sup>(49)</sup>

The Mercury News' second claim was that Ross' success as a drug dealer was unique, owing to his unprecedented ties to a Colombian cocaine dealer. According to the articles, Ross was the first black, South Central Los Angeles drug dealer to cultivate a relationship with a Colombian cocaine trafficker. As a consequence, Ross purportedly became the sole conduit for affordable, Colombian cocaine into the untapped black communities of South Central Los Angeles. Since Bandon's Colombian supplier was Ross' source for the cheap cocaine that flooded the streets of South Central Los Angeles in the mid-1980s, the Mercury News dubbed Bandon "the Johnny Appleseed of crack in California -- the Crips' and Bloods' first direct-connect to the cocaine cartels of Colombia."

Lastly, the Mercury News series asserted that Ross' and Bandon's drug network was the catalyst for the crack epidemic that erupted in the 1980s across America, not just the epidemic that occurred in the city of Los Angeles. According to one article, "The cocaine that flooded in [through Bandon's drug ring] helped spark a crack explosion in urban America . . ." During a June 22, 1997 interview with the Revolutionary Worker, Gary Webb clarified the point he intended for the article to make:

What we were able to show was where the stuff was being sold, which was the inner cities, in Los Angeles primarily. And we were able to show what the effect of that was. Which was to help spark this horrible crack epidemic that went from Los Angeles to hundreds of cities across the United States in the years after that.

The OIG investigation found little to support the Mercury News' claims concerning Ross' and Bandon's allegedly seminal roles in the proliferation of crack cocaine in Los Angeles. The OIG uncovered even less evidence to support the allegations concerning Ross' and Bandon's roles in the spread of crack cocaine across the nation. We uncovered conflicting evidence of the singularity of Ross' ties to Colombian dealers. Ross may indeed have been one of the first black dealers in South Central Los Angeles to forge a tie, through Bandon, to a Colombian supplier. However, the significance of that fact is debatable; other black South Central dealers who were Ross' contemporaries found their own Colombian cocaine suppliers either in the same timeframe or shortly after Ross did, and without Bandon's assistance.

While some of the Mercury News series' assertions about the origins of the crack cocaine epidemic are in fact accurate, others do not appear to be supported by fact or are the product of untested supposition. For example, while Ross was a major cocaine trafficker in Los Angeles in the mid-1980s, there is scant evidence to support the assertion that he was solely or even principally responsible for the explosive growth of crack cocaine in Los Angeles during that period. The burgeoning of the crack cocaine market -- both in Los Angeles and across the country -- is best explained by the confluence of several factors that were not under the control of a single entity or individual.

There is no doubt that Ricky Ross created a massive distribution network that poured enormous amounts of crack into Los Angeles, and elsewhere, during the mid-1980s. One of the more challenging aspects of our inquiry has been to reconcile, or choose between, conflicting accounts by Bandon and Ross. Both admit to participating in repeated, large-scale drug transactions, but they differ on the duration of their drug dealing and the quantity of cocaine sold. And each man's account has itself varied over time.

### 1. When Did Bandon Begin Selling Cocaine to Ross?

It is hard to pin-point exactly when Ross first became involved in the cocaine business, since he has been unsure of the

precise date and has given at least two different accounts of how he got started. However, these descriptions of his drug dealing history contain certain facts susceptible to being fixed in time.

Ross grew up in Los Angeles, and was a talented tennis player in high school. According to Ross' testimony in his 1996 trial, he failed to graduate from high school, and enrolled at Venice Gilson Trade School, where he met "Mr. Fisher." Ross testified that he attended Gilson for only one month, until he transferred to Los Angeles Trade Technical College, where he played tennis for one or two years. Mr. Fisher then allegedly introduced him to cocaine and drug dealing. Ross' school records from Los Angeles Trade Technical College indicate that Ross enrolled there in January 1979. While his academic records indicate that he remained enrolled until January 1982, his transcripts show that he played tennis for L. A. Trade Tech until January 1981. Thus, according to this account of his introduction to cocaine dealing, he began selling cocaine either in early 1981, when he stopped playing tennis at L.A. Trade Tech, or in 1982, when he finished taking classes there.

However, Ross also testified during a December 1991 trial and told both the Los Angeles Times in 1994 and the Mercury News in 1996 that he was first introduced to cocaine in the early 1980s by a friend, Michael Willie McLaurin, who was home from San Jose State University (SJSU). Attendance records from SJSU indicate that McLaurin attended classes there for one semester, from January 1981 to May 1981. Ross also told both the Los Angeles Times and the Mercury News that he began dealing cocaine after his arrest for grand theft auto, which occurred in March 1982. This places Ross' beginnings as cocaine dealer in mid-1982, at the earliest. Whether Ross began selling cocaine at the behest of Mr. Fisher or after his arrest for grand theft auto, both accounts suggest that he started selling cocaine in or around early 1982. We believe that it is most likely that Ross started dealing cocaine in early 1982.

Determining when Bandon became Ross' supplier is a more difficult task, complicated both by Ross' and Bandon's frequently shifting accounts of when they met. In various interviews and testimony, Ross has stated that Bandon began selling cocaine to him in 1981 or 1982, or sometime during 1983 or 1984. Bandon, on the other hand, has asserted that they met later: 1983, 1984, or 1985.

Despite the disagreement on the precise year, Ross and Bandon provide the same account of how they met and began their dealings. In the early 1980s Bandon was selling cocaine to Henry Corrales and Claudio Villavencio (a.k.a. "Ivan Arguellas"), who were in turn supplying Ross with cocaine in relatively small quantities -- 6 to 8 ounces a week. Ross and Bandon agree that their relationship began shortly after Villavencio was shot and paralyzed. After Villavencio's shooting, Corrales attempted to continue doing business. He ultimately gave up, arranged for Bandon to deal directly with Ross, and left the country. Police records confirm that Villavencio was shot in October 1983. It appears, therefore, that Bandon did not begin selling directly to Ross until after October 1983. Because Corrales attempted to continue conducting business before introducing Ross directly to Bandon, Ross and Bandon probably did not begin dealing with each other until 1984.

The scale of Ross' operation vastly increased once he starting dealing directly with Bandon, particularly after Bandon developed a Colombian source of supply, Aparicio Moreno. Bandon has not been able to say precisely when he began to deal with Moreno but, based on the accounts of Bandon, Carlos Rocha -- one of Bandon's associates whom the OIG interviewed -- and LA CI-1, it appears that Bandon did not develop his Colombian source until approximately 1985.

## **2. How much cocaine Did Bandon Sell to Ross?**

Establishing with any certainty how much cocaine Bandon sold to Ross is virtually impossible. No one in Bandon's or Ross' organizations kept a careful accounting of such matters. Moreover, the quantity that Bandon sold to Ross was not constant. The amounts were relatively small at the beginning of their relationship, growing considerably as time passed. To further complicate matters, the amounts Bandon sold to Ross fluctuated according to his supply and competition with Ross' various other suppliers. Some estimates have failed to take these factors into account and have instead assumed that the quantity Ross was buying at his peak in 1986 remained constant over the duration of his relationship with Bandon. From our interviews of both Ross and Bandon, we know that this was not the case.

When interviewed by the OIG, Ross recalled that the first kilogram he ever bought was purchased from Bandon. Before that he was dealing in smaller quantities. As discussed above, the OIG believes that Ross began buying cocaine from Bandon in late 1983 or early 1984. According to Bandon, Ross bought two or three kilograms every few days, until Bandon, wearying of these repeated transactions, started selling Ross about 25 kilograms at a time. Bandon noted that this reduced his profit per kilogram because of volume discounts, but increased his overall profit because he was selling

more cocaine. Blandon testified at Ross' trial that he was selling 100 kilos per month to Ross in 1984. Blandon also testified that by 1986 he was selling 100 kilos per week to a combination of four or five different customers, including Ross. Blandon told the OIG that during 1985 and 1986, the amounts he sold Ross ranged from 50 kilos in a week, to nothing.<sup>(50)</sup> It is unclear from Blandon's account how long Ross bought cocaine a few kilograms at a time from Blandon before graduating to large multi-kilo purchases. It is possible that Ross did not begin buying in large multi-kilo quantities until mid or late 1984.

When Ross was asked during his December 1991 testimony in the "Big Spender" trial to estimate how much his drug organization sold over its lifetime -- which the OIG believes began in 1981 or 1982 and ended with his arrest in 1989 -- he said the total amount was between 2,000 kilos and 3,000 kilos. Such an estimate is consistent with Blandon's account above and with an estimate Blandon made in July 1990 during a conversation with an individual who, unbeknownst to Blandon, was a DEA informant wearing a hidden recording device. Blandon told the informant that he estimated that he had sold between 2,000 and 4,000 kilos to black drug dealers.

Lister told the OIG about one occasion when Blandon purportedly paid him \$50,000 to help transport 100 kilograms of cocaine from Blandon's house to South Central Los Angeles. Lister recalled that a black man had taken the cocaine, and delivered boxes containing \$2.5 million in cash. Ross recalled this transaction, which he believed had taken place in 1985, because it was the first time he had received 100 kilos, and because his money had been short; the price for the shipment had been almost \$3 million. Ross noted that he had never received cocaine on credit from either the Torres brothers or Blandon, but was occasionally given partial credit when he did not have enough cash to pay for a delivery. Blandon denied to the OIG ever making a multi-million dollar shipment to Ross. Instead, he maintained that he delivered approximately 50 to 60 kilos of cocaine to Ross with Lister. He denied that Ross paid him millions of dollars for this transaction.

Some of Ross' estimates of his cocaine sales have far exceeded the 2000 to 3000 kilo estimate he made in 1991. Ross told the OIG that, in 1983 and 1984, he frequently got about 100 kilograms a week from Blandon and about 40 kilograms a week from Edgar and Jacinto Torres, two of Blandon's competitors who sold to Ross until 1987. If this pattern of purchases occurred consistently for only a single year, this would amount to close to 8000 kilograms. Ross also estimated that Blandon sold him between 500 and 700 kilograms every month. During his 1996 testimony, Ross claimed that during his peak year, 1985, he made \$200,000,000 and he told the Mercury News that "it was not uncommon ... to move \$2 million or \$3 million worth of crack in one day." These figures appear to be exaggerated. According to his 1991 testimony, Ross first became a millionaire in 1984 or 1985. It seems unlikely that his profits increased two-hundredfold in a single year. Moreover, Ross told the Los Angeles Times in 1994 that, when he laid all of his money on a living room floor in 1986 and counted it, it totaled \$2.8 million.

It is unlikely that we will ever know exactly how much cocaine Blandon sold to Ross. Needless to say, regardless of whether Ross' or Blandon's figures are credited, Blandon sold a massive volume of cocaine to Ross over the duration of their association. The OIG believes that Ross' own estimate of how much cocaine he sold -- 2,000 to 3,000 kilos -- is credible and supported by both his other testimony and by Blandon. While this amount is considerable, it alone was clearly not enough to spark the cocaine epidemic of the 1980s, especially since it was spread over seven years.

To put that amount in perspective: 2,000 to 3,000 kilograms equals roughly two to three tons of cocaine handled by Ross' organization over seven years. The DEA estimated in 1982 that 44 tons of cocaine had been brought into the country in 1980 alone, and 40 to 48 tons in 1981. About 20 percent of that cocaine was believed to be destined for Los Angeles. In November 1984, the State Department Bulletin reported that an estimated 70 tons of cocaine was being smuggled into the country. Furthermore, there were a number of traffickers who dealt in quantities far greater than did Ross' organization during this period. In March 1982, two tons of cocaine were seized at the Miami Airport. In May 1984, the Associated Press reported the arrest of members of a ring in southern California and Miami that smuggled a ton of cocaine in just the prior year. In September 1984, Alan Mobley pleaded guilty to smuggling two tons of cocaine a year to the West Coast for a cocaine ring run out of Orange County, California. In 1984, Harold Rosenthal was convicted in federal court of bringing five tons of cocaine into the country during a 14-month period.

### 3. Availability of Cocaine in South Central Los Angeles

Cocaine was a status drug for the wealthy in the late 1970s and early 1980s. It was not widely used in South Central Los Angeles in 1980, principally because it was not affordable to many drug users. Phencyclidine (PCP) was still prevalent in that era. PCP was manufactured and distributed mainly by Los Angeles street gangs, according to the Los Angeles



Police Department. Nonetheless, the Mercury News' assertion that cocaine was not available in South Central Los Angeles before Blandon began selling to Ross is inaccurate, or at least hyperbolic.<sup>(51)</sup>

First, cocaine was apparently present in South Central Los Angeles before Ross even began to sell it. In October 1996, the Los Angeles Times published a story recounting Thomas "Tootie" Reese's claim that he was introduced to freebasing in 1976. He soon learned how to make crack and became a substantial drug dealer in the black community in Los Angeles.<sup>(52)</sup> Reese was arrested in 1983 by the DEA after he made a multi-kilo cocaine deal. And Reese was not the only South Central dealer selling cocaine. When the OIG interviewed Ross, we asked whether others were dealing cocaine in the early days of his organization. Ross stated that there were "a few people I used to hear about," and he named several.

As Ross' operation grew, he had other South Central dealers to contend with. Perhaps the most successful of these was Brian Bennett, also known as "Waterhead Bo." According to Ross, Bennett started his operation at about the same time Ross did. As discussed below, Bennett is believed to be responsible for a large, multi-state cocaine operation in the mid-1980s. Law enforcement wiretaps that intercepted communications related to Bennett's operation indicate that, in one month in 1987, Bennett purchased just under 1,000 kilos of cocaine from a Colombian source.

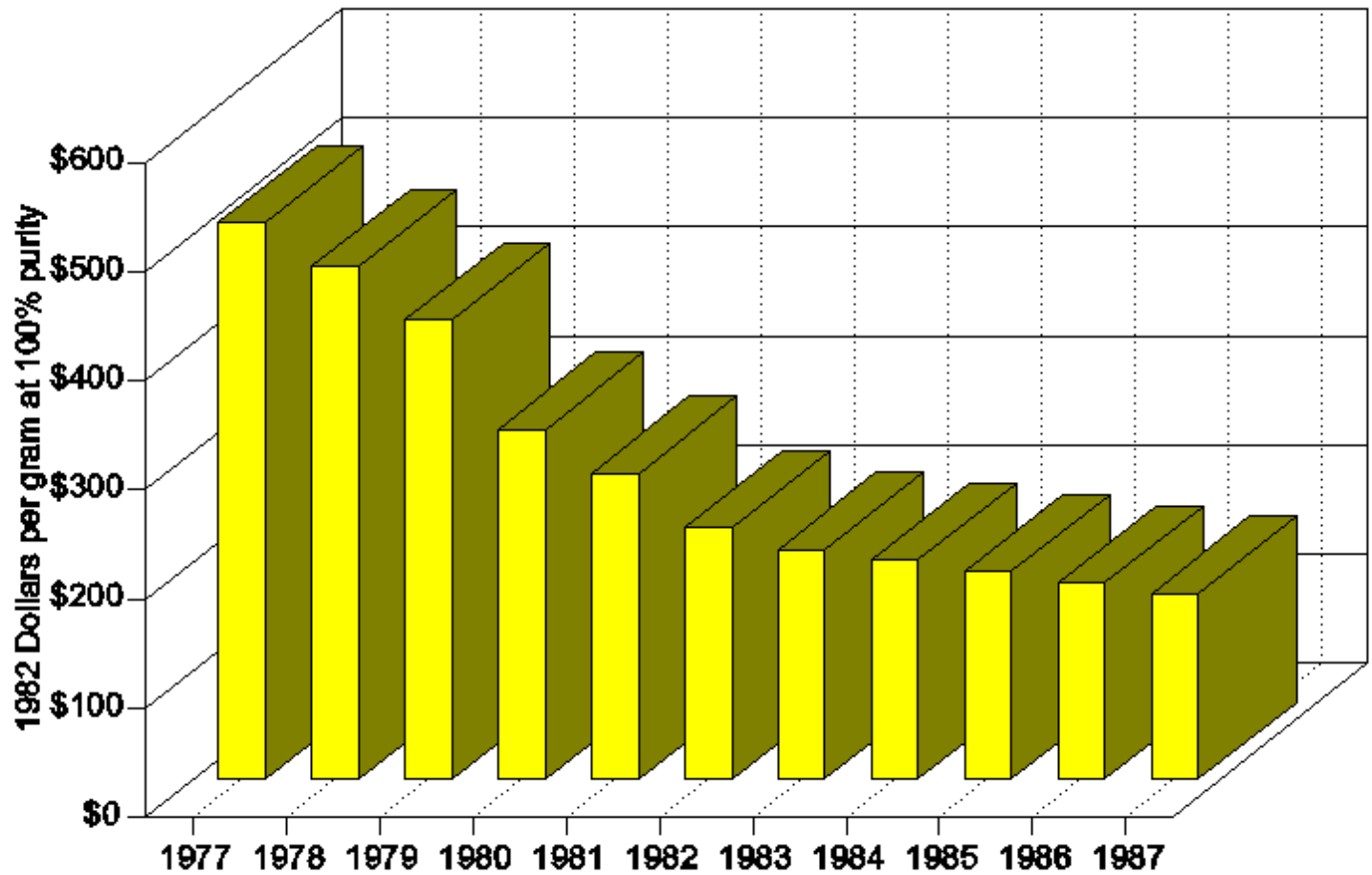
Ross was also not the first crack dealer in South Central Los Angeles. Others taught him about crack cocaine. Ross told the OIG that he first learned to "rock up" cocaine powder so that it was suitable for smoking from Stefan Moore, and told LASD investigators that he learned from "watching different people in the neighborhood," including Michael McLaurin and a "pimp named Martin." Ross told the OIG that other drug dealers did not really want to show him how to cook crack because they usually got paid to make the crack. It is also worthy of note that Ross has never claimed that Blandon, or any other Nicaraguan, taught him how to make crack cocaine. Ross has specifically denied in both his interview with the OIG and in trial testimony that Blandon taught him how to cook crack.

The Mercury News' contention that Blandon was a prime factor in the growth of cocaine in South Central Los Angeles appears to be based in part on the low per-kilo prices that Blandon was able to provide to Ross, which enabled Ross to buy cocaine in large quantities. However, cocaine prices dropped throughout the 1980s as a result of activity by South American drug cartels. During the 1980s, cocaine producers in South America -- particularly Colombia -- increased production of cocaine.

Cocaine is a commodity whose prices follow the same basic economic rules of supply and demand that apply to most products: when supply is abundant, prices fall; when there is scarcity, prices rise. At the beginning of the 1980s, the national wholesale price for a kilogram of cocaine hydrochloride ranged from \$47,000 to \$70,000. By the end of the 1980s, the national wholesale price dropped to between \$10,000 and \$38,000.<sup>(53)</sup> Despite huge seizures of cocaine like those discussed above, prices continued to drop in major cities throughout the 1980s. When huge seizures have no effect on street prices, it indicates that a large supply is still in circulation. The drop in the price of cocaine, despite increased seizures and purer product, suggests that the amount of cocaine in the United States grew steadily throughout the 1980s. The wholesale market became flooded with cocaine and the price of cocaine dropped dramatically as a result of a glut. In sum, anyone with a Colombian source could have taken advantage of the glut on the supply side.

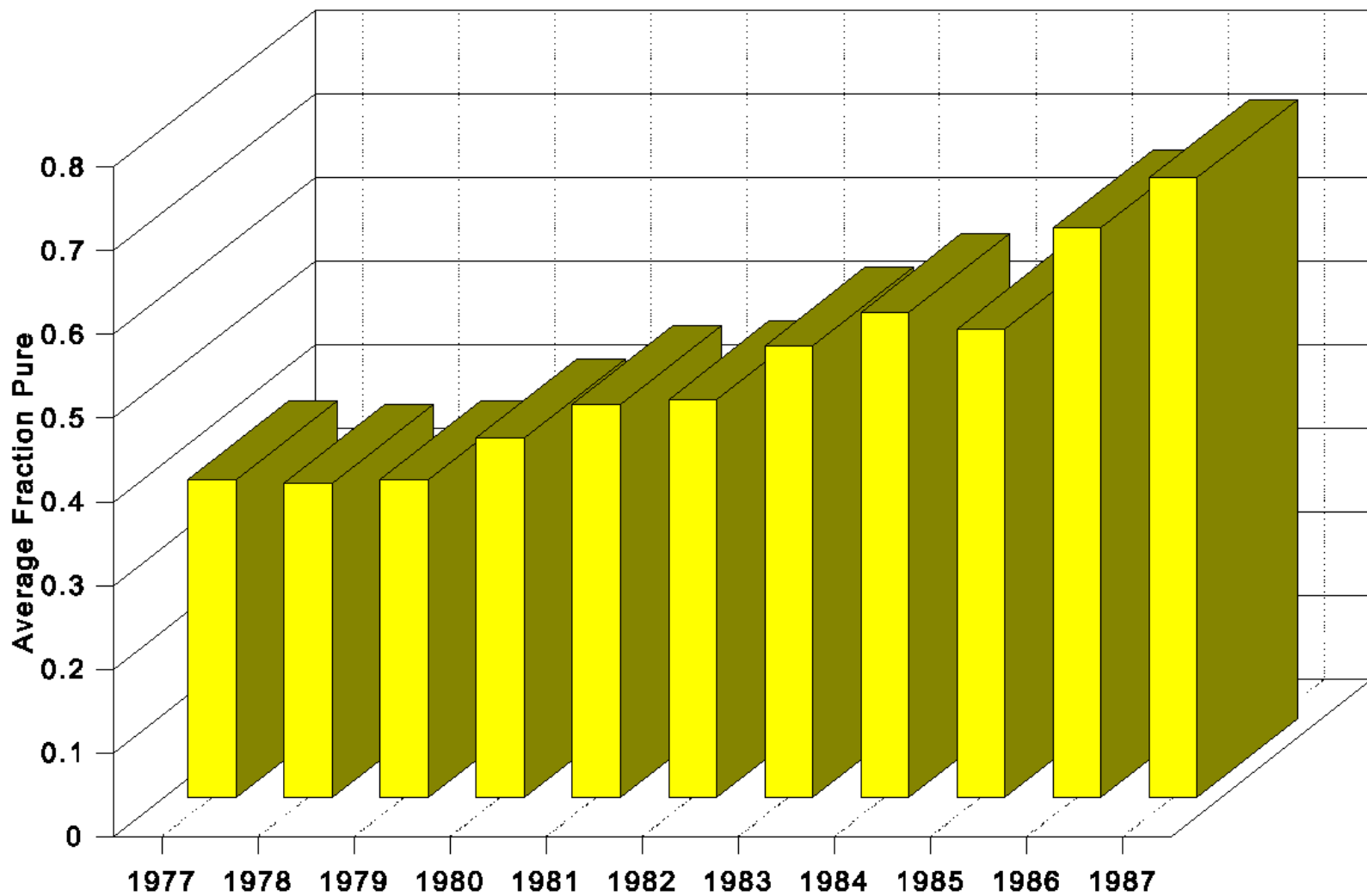
# Retail Price of Pure Gram of Cocaine

STRIDE Data from 1977 to 1987



# Retail Purity of Cocaine

STRIDE Data from 1977 to 1987



#### 4. Was Ross the first Los Angeles drug dealer with a Colombian supplier?

In 1985, the DEA began investigating Mario Ernesto Villabona Alvarez, a Colombian drug source, and soon discovered that Brian Bennett, who became one of the largest traffickers in Los Angeles, was one of his customers. During an intercepted telephone conversation in April 1988 between Villabona and an individual in Cali, Colombia, Villabona was given an accounting of money owed by Bennett for 1987 and 1988 cocaine deliveries. In addition to 985 kilos of cocaine that had been sold to Bennett's operation at the end of 1987 for between \$9,500 to \$10,000 a kilo, another 1,791 kilos was sold to Bennett's operation during January and February 1988 for between \$9,000 and \$9,500. At the time of his arrest, the Bennett-Villabona drug organization was selling approximately a ton of cocaine per week, according to law enforcement sources quoted in news coverage about the arrest. DEA agents also determined that Villabona was supplying other South Central Los Angeles dealers including Michael Harris, Jimmy Washington, and Mike McCarver. McCarver alone was buying thousands of kilos of cocaine.

It is unclear whether Villabona's tie to these South Central dealers preceded Ross' connection to Blandon and Moreno. The OIG was unable to precisely determine when Villabona began dealing with Bennett. Nevertheless, it is apparent that other South Central drug dealers forged ties to Colombian dealers without the assistance of Blandon or any other Nicaraguans associated with the Contras. If Ross was indeed the first to establish a connection to Colombia, others followed closely in his wake.

It should also be noted that the prices at which Villabona sold cocaine to Bennett reflected the drop in cocaine prices

that occurred during the 1980s in Los Angeles and across the country. Ross stated that he bought his first kilogram from Blandon for \$40,000. We believe this occurred in 1984. According to Ross, Blandon sold him 13 kilograms of cocaine for \$10,000 a kilogram in 1987. The Villabona conversation suggests that Blandon was simply charging Ross prevailing rates for cocaine, not fantastically discounted rates as was alleged by the Mercury News.

## 5. Were Ross and Blandon Responsible for the Spread of Crack Cocaine in Los Angeles?

Ross and Blandon certainly contributed to the crack epidemic in South Central Los Angeles. But, contrary to the suggestion of the Mercury News, there is no evidence that they were singularly or primarily responsible for it.

First, the timing of Ross' ascension as a cocaine dealer makes it improbable that he was a pivotal factor in the explosive growth of cocaine in South Central Los Angeles. It appears that sometime between 1983 and 1984, crack became a concern among law enforcement and medical health experts in South Central Los Angeles. Los Angeles Police Detective Ben Gonzalez of the South Bureau juvenile narcotics division reported that 147 juveniles were arrested on cocaine-related charges from January 1984 to November 1984. In contrast, 34 were arrested during all of 1983. An interview with a 33-year veteran of the Los Angeles Police Department who spent the early 1980s working in South Central Los Angeles revealed a similar story. Detective Richard Ginelli became a supervisor of the South Bureau's narcotics squads in 1981. He recalled that PCP was still prevalent then and, while crack cocaine may have existed, it did not have a significant presence. Detective Ginelli recalled that starting in 1982 he began seeing "rock" cocaine with greater frequency, although it had not yet become a significant problem. Detective Alfonse Koter, who was an LAPD policeman on the streets of South Central in 1982, also recalled hearing about rock cocaine for the first time in 1982. During 1982 or 1983, he recalled receiving training on rock cocaine during roll call and recalled hearing that there was freebase that was created with cocaine and rum. Detective Koter remembered that LAPD's raids on "rock houses" began in 1983.

Press accounts also set South Central Los Angeles' crack crisis as beginning in or about 1984. The press did not begin reporting on the issue of crack cocaine until 1984, but those articles suggested that the mounting crack problem had existed prior to that time. The first coverage of crack cocaine by a major newspaper was a November 25, 1984, Los Angeles Times article entitled, "South Central Cocaine Sales Explode Into \$25 'Rocks.'" The article recounted concerns about the "sale of hardened cocaine called 'rocks'" that reportedly swept through South Central Los Angeles' black community during the prior 18 months.

According to OIG estimates, Ross began dealing small quantities of cocaine in 1982 and did not graduate to larger quantities until mid to late 1984. By the time Ross' operation reached its peak -- in 1985, according to Ross -- crack was prevalent in South Central Los Angeles, and many other dealers were vying for a share of the lucrative market. Thus, by the time Ross was buying and selling cocaine in large quantities, the crack crisis was well underway in South Central Los Angeles.

Ross told the Mercury News: "I'm not saying I wouldn't have been a dope dealer without Danilo ... But I wouldn't have been Freeway Rick." This is far from clear. Blandon was certainly a major supplier, but there were plenty of others. Ross was an ambitious entrepreneur who thrived in optimal market conditions: the Colombian cocaine glut had reduced cocaine prices, and crack was well-suited for cheap, easy production and simple, ready-to-use distribution. But crack's effects and affordability made it extremely popular among drug users and accessible to the poor. These factors were more responsible than anything else for the rise of crack cocaine. And they were not a creation of Ricky Ross, Danilo Blandon, or any other individual. [See Appendix B for discussion of the addiction and the pharmacology of crack cocaine and Appendix C for a discussion of the history of cocaine.]

## 6. Did Ross and Blandon Spread Crack Across the Country?

The Mercury News series suggested that Ross and Blandon were responsible for the spread of crack cocaine across the country. This claim is dubious and may be discounted for several reasons. First, it presupposes that crack first appeared in Los Angeles and spread nationwide from there. Drug experts still do not agree on the path charted by crack across the country. Some do indeed believe that crack was created on the West Coast. The DEA reports that crack cocaine was first identified in Los Angeles in 1981, when it was also found in Houston, Miami, and San Diego. The DEA's report that crack existed in Los Angeles in 1981 is bolstered by Dr. Malcolm Klein, PhD, who researched gangs and drugs in Los Angeles. Dr. Klein reported during an OIG interview that his review of 1981 Los Angeles police reports indicated the seizure of rock-like narcotic substances in glassine bags that were identified as cocaine. These, in all likelihood, were crack cocaine. Moreover, a researcher in the area of cocaine use, Dr. Ronald Siegel, PhD, reportedly witnessed residents

from South Central Los Angeles' Nickerson Gardens public housing project smoking crack as early as 1978.

However, many believe that crack was created independently on the East Coast. One theory posits that crack developed on the East Coast as the result of coca paste smoking. In the early 1970s, drug users rediscovered cocaine just as heroin waned in popularity. At the same time, a new method of administering cocaine was becoming popular outside of the United States. A coca paste smoking epidemic erupted in Peru and the Bahamas during the 1970s and early 1980s. Some social scientists believe that cocaine abuse in Peru and the Caribbean in the late 1970s presaged the United States' coming crack cocaine problem and may have been the precipitating event. [See Appendix B for discussion of coca paste smoking]

During the 1970s in Peru -- a cocaine producing country -- General F. Raul Jeri, M.D., and the Health Department of the Ministry of the Interior reported on a disturbing trend of coca paste addiction. Jeri found an urban pattern of cocaine abuse among smokers of coca paste. Smokers were reportedly becoming so obsessed with their smoking that they suffered from malnutrition and ill health and resorted to crime to obtain the drug.<sup>(54)</sup> United States representatives who visited Peru in 1979 to examine evidence of the problem were alarmed, both by what they had witnessed and by the prospect of the phenomenon spreading to the United States.<sup>(55)</sup> During a hearing held by the House Select Committee on Narcotic Abuse and Control on July 26, 1979, Dr. Robert Byck of Yale University expressed alarm at the phenomenon and urged "the Federal Government to engage in an educational campaign to prevent a drug abuse epidemic" in the United States. In later testimony before the Senate Subcommittee on Investigations on July 15, 1986, after the crack cocaine crisis had begun here, Dr. Byck would proclaim that "[t]oday we are in the midst of the predicted epidemic."<sup>(56)</sup>

Just on the heels of the Peruvian crisis was the outbreak of a similar phenomenon in the Bahamas. The cocaine base smoking epidemic in the Bahamas was even more widely reported among social scientists in the United States than the phenomenon in Peru. It represented the first documented nationwide epidemic of freebase cocaine abuse outside of a producer nation. A well respected medical journal, The Lancet, reported that beginning in 1983, the number of admissions for cocaine abuse to Bahamian psychiatric hospitals increased dramatically: from none in 1982, to 69 in 1983, and to 523 in 1984. In 1984, 98% of the admissions to the Nassau psychiatric hospital for cocaine abuse involved freebase smoking.

A 1994 DEA report identified the substance that was being smoked in the Bahamas as "crack."<sup>(57)</sup> The report stated that crack cocaine first appeared in the early 1980s, when several nations in the Caribbean reported drug users smoking coca paste mixed with baking soda, water, or rum, called "baking soda paste," "base-rock," "gravel," and "roxanne." This is the same recipe for crack that Detective Koteri recalled being used on the streets of Los Angeles in the early 1980s.

Dr. James Inciardi, a researcher in the area of illicit drugs, has written several articles on the onset of cocaine base smoking in the Bahamas. He has asserted that the Bahamian coca paste epidemic was caused by the Colombian government's successful attempt to restrict the sale of ether used to convert coca paste into cocaine hydrochloride in anticipation that it would reduce the domestic production of cocaine hydrochloride. Instead, according to Dr. Inciardi, cocaine producers began shipping unprocessed coca paste to Caribbean and Central American countries in lieu of cocaine hydrochloride.<sup>(58)</sup>

Dr. Inciardi reports that in 1980, coca paste smoking was popular in the Caribbean. According to Dr. Inciardi, immigrants from Jamaica, Trinidad, and locations along the Leeward and Windward Islands introduced the prototype for crack to Caribbean inner-city populations in Miami and New York. Inciardi claimed that coca paste may have been a prototype for crack used in the United States.<sup>(59)</sup> Researchers whose study was published in the Lancet reached a similar conclusion:

Although it is not possible to pinpoint a single inventor of crack, it is likely that one of the earliest appearances of crack was in the Caribbean, especially the Bahamas.

From the Caribbean, crack made one of its earliest entries in the United States in Miami sometime in the early 1980s. Around the same time, a similar product called "rock" cocaine began making its appearance in Los Angeles; whether the Los Angeles version of crack had its source in the Caribbean, or represented a simultaneous discovery by a local drug chemist, is not clear.

Lancet, 1:459-62, 1986, "Epidemic Freebase Cocaine Abuse: Case Study from the Bahamas." (citations omitted)

Another theory posits that crack cocaine was an outgrowth of experimentation with freebasing cocaine, a method of administering cocaine that was particularly popular on the West Coast in the 1970s and early 1980s, and coca paste smoking. Dr. Ronald Siegel, a researcher now at UCLA who for two decades researched freebasing practices, has documented crack and freebasing practices. Dr. Siegel believes that crack cocaine was imported to the United States in the early 1970s by United States cocaine smugglers who observed coca paste smoking while in South America. A

drug trafficker who was interviewed by Dr. Siegel in 1974 reported his experience with coca paste: "[S]moking base is incredibly euphoric, just like shooting it [intravenously]. We don't want too many people knowing about it because it will get out of hand. It's incredibly addicting. But you need a lot of coke to make it, so only dealers will probably do it."<sup>(60)</sup>

According to Dr. Siegel, a mis-translation related to coca paste may have resulted in the unintended creation of freebase. Dr. Siegel was told by an interviewee who was a drug trafficker that in January 1974 he told a chemist about smoking "base." The interviewee was referring to "base" (pronounced bah-say), a coca paste smoked in South America. The chemist, who reportedly thought that the interviewee was referring to the chemical "base" form of cocaine hydrochloride, attempted to recreate what he thought the interviewee had described, cocaine hydrochloride converted to a base state. The chemist used baking soda and ether in the conversion process.<sup>(61)</sup> The result was cocaine freebase, a substance that was purer and more concentrated than the coca paste that was being smoked in South America, because it contained neither the solvents nor the other residues from the coca leaf extraction process. [See Appendix B for discussion of manufacturing coca paste.] Dr. Siegel believes that chemist may have created something that never had been manufactured before. Dr. Siegel stated in an interview with the OIG, if there was a "Johnny Appleseed of crack," it was that chemist.

In sum, there is no consensus on how crack was invented or how it spread. However, the fact that it existed in cities on the East Coast in the early 1980s at the same time it did in Los Angeles undermines the theory that the presence of crack everywhere is an outgrowth of crack in Los Angeles. For example, a survey taken in 1986 by Dr. Inciardi of 254 crack users in Miami determined that 28 percent had heard of crack as early as November 1982.

### Dates of First Knowledge of Crack in Miami

When did you first hear about crack?	Number	Percent
November 1982 - December 1983	70	27.6
January - December 1984	79	31.1
January - December 1985	33	13.0
December 1985 - February 1987	72	28.3
	254	100.0

Source: "Crack Cocaine in Miami" at 267.

A further weakness in the claim that Ross and Blandon are responsible for the spread of crack nationwide is Ross' inconsistent accounts of his distribution networks across the country. During his interview with the OIG, Ross said he had sold a total of 30 to 50 kilos of cocaine in Tyler and Dallas, Texas, from 1984 through 1986; 10 to 15 kilos of cocaine to dealers from Seattle in 1984; 10 to 15 kilos to dealers from Louisiana from 1984 to 1986; 200 kilos to dealers in Kansas City in 1985; .5 to 2 kilos a week during 1986 to dealers in St. Louis; 40 to 50 kilos to dealers in Oklahoma from 1984 to 1985; and unknown quantities to dealers in Cincinnati in 1987 and Indiana and New York in 1988. But during his December 1991 trial testimony, he told of having sold cocaine in Cincinnati, Los Angeles, St. Louis, and the state of Texas, but did not mention Seattle, Louisiana, or Kansas City. And he denied ever selling cocaine in New York. In any event, even if one takes Ross' most grandiose claims as true, the quantities he has admitted to selling in these cities were not large enough to have created a crack crisis.

A study conducted in one of Ross' principal cities of operation, Cincinnati, Ohio, has failed to support claims that Ross was responsible for the onset of crack cocaine there. On October 2, 1996, in the aftermath of the Mercury News series, the Police Chief of the City of Cincinnati directed the city's Regional Narcotics Unit (RNU) to conduct an inquiry to determine Ross' relationship to the emergence of the crack cocaine problem in that city. The study used data collected by the RNU beginning in 1986 on the frequency of law enforcement contacts with crack cocaine in the various neighborhoods of Cincinnati to determine Ross' impact upon crack trafficking. The RNU concluded that, while Ross was a significant cocaine trafficker, many others in Cincinnati were as significant. Its report found that cocaine had principally been obtained from the eastern seaboard cities in New York, New Jersey, and southern Florida, not from Los Angeles. Furthermore, it found that most of Cincinnati's cocaine supply had been controlled by individuals of South American

and Caribbean origin who were distributing cocaine to traffickers who resided in Cincinnati. The report concluded:

While Ross was responsible for significant cocaine distributions locally, so were a number of other cocaine traffickers arrested that year. These subjects had no linkage to Ross, street gangs, and most had no linkage to Southern California.

During our interview, when we asked Ross if he was the "Johnny Appleseed of Crack," he responded: "It's possible. I played the part, I helped." But when we asked him about dealing cocaine in various cities, he conceded that he was not the first, only, or principal dealer in those cities.

When asked at his March 1996 trial whether he was the biggest cocaine dealer in Los Angeles, Ross responded that he instead was just the most famous. To be sure, modesty about the scope of one's criminal activity is common among defendants dealing with the government. But the evidence fully supports Ross' concessions in this regard.

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49. In a June 19, 1997, interview of Gary Webb that appeared on the METROACTIVE website, Webb described the significance of his articles as follows: "Well, the significance is that these drugs started the first crack market in the United States. I mean, the Contras brought in cocaine and they fueled the first crack market in the U.S."

50. It should be noted that, during Ross' immunized testimony in the "Big Spender" trial in 1991, discussed below, he did not mention Blandon as one of the sources of his drugs. When asked by the OIG about this omission, Ross stated that he had wanted to protect Blandon. Ross stated, "I loved Blandon and he was like a father to me."

51. Our analysis focused upon cocaine instead of crack because the Mercury News' allegations were based upon Blandon's importation of mass quantities of cocaine, not crack. The Mercury News alleged that Blandon and Ross created the crack crisis by making mass quantities of affordable cocaine available in South Central Los Angeles. As Gary Webb stated in June 1997 during an interview with Revolutionary Worker:

[T]he technology to make crack had been around for a while. I found evidence that there were recipes floating around on how to do this conversion from powder to crack with baking soda in the late '70s. The problem was, there just wasn't enough cocaine out there to do it with. And it was too expensive. And what we found was that when you brought in a large quantity of very cheap cocaine, suddenly people that knew how to make crack had the wherewithal to make it. It was the raw material -- these folks supplied the new material for this crack problem. And that was the connection. It wasn't a situation where the CIA invented crack, or the Contras were bringing in crack. They were just bringing in powder and the drug users on the street had this knowledge of how to do it for a while but didn't have the material to do it with.

52. The OIG attempted unsuccessfully to interview Reese for this report.

53. Maurice Rinfret, "Cocaine Price, Purity, and Trafficking Trends," Epidemiology of Cocaine Use and Abuse, NIDA Monograph Series, 1991.

54. Jeri, F.R.; Sanchez, C.C., Del Pozo, T. & Fernandez, M., Journal of Psychedelic Drugs, Vol. 10(4): 361-370 (1978).

55. Hearing before the Permanent Subcommittee on Investigations of the Committee on Governmental Affairs, United States Senate, 99th Cong., 2d Sess., July 15, 1986, at 19.

56. Id. at 86.

57. Crack Cocaine: Drug Intelligence Report, April 1994 (DEA Publication).

58. Inciardi, James, "Crack Cocaine in Miami," The Epidemiology of Cocaine Use and Abuse, NIDA Research Monograph, at 265, (1991). See also Inciardi, J.A., "Beyond cocaine: Basuco, crack, and other coca products," Contemporary Drug Problems, Fall: 461-494, 1987.

59. Crack Cocaine in Miami, at 265.

60. Siegel, R.K., Journal of Psychoactive Drugs, History of Cocaine Smoking, Vol. 14(4) Oct-Dec 1982, at 288.

61. Id.

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## **D. Law Enforcement Investigations of Ross**

### **1. The Freeway Ricky Task Force**

The Los Angeles Sheriff's Department (LASD) began investigating Ross in 1985 but was unable to make any arrests or drug seizures. In January 1987, the LASD and Los Angeles Police Department teamed up and formed a task force to target Ross and others in South Central Los Angeles. The task force became known as the Southwest Crew and consisted of nine members. The task force began to focus so intently on catching the elusive Ross that it became known as the Freeway Ricky Task Force. According to later indictments, the members of the Southwest Crew also stole drug money and possessions from drug traffickers. According to the later federal indictment, in April 1987, the officers chased Ross and shot at him when he fled. According to subsequent trial testimony, they then planted a kilo of cocaine in the path of his flight and claimed that Ross had dropped it. They also claimed that the shot fired by police had been fired after Ross had fired at them. Ross was later arrested on these charges. The charges were later dismissed for police misconduct based on Ross' assertion that the police had disparaged Ross' attorney, Alan Fenster, during their questioning of Ross and therefore interfered with the attorney/client relationship. A tape of the interview was produced by police and found to have a substantial portion of it edited out. The court then dismissed the charges.

State authorities came to Los Angeles Assistant U.S. Attorney Jim Walsh and asked if the federal authorities could prosecute Ross for the offense that was dismissed. The local officials showed Walsh the transcripts of the remarks that had been directed to Fenster and that had caused the court to throw the case out. As an accommodation to the state officials, Walsh said that he would try to prosecute Ross and put a LASD deputy sheriff before a grand jury. The deputy testified that he had pursued Ross and that Ross had shot at the deputy and dropped a bag of cocaine as Ross was going over a fence. Sometime after the grand jury appearance, the deputy became implicated in the corruption scandals (known as the "the Big Spender" cases). Once it became clear that the deputy was implicated in corruption, Walsh realized that the case against Ross was not going anywhere and could not be prosecuted. Ross eventually became a witness for the government in a prosecution of this deputy and others. This was discussed in Chapter IV.

### **2. Ross in Cincinnati**

Ross told the OIG that, in 1987, under pressure from the corrupt LASD Task Force, he decided to retire from the drug trade and move to Cincinnati. But he said he shelved these plans when Bandon called him soon after his move in 1987 and asked him to meet him in Detroit. There, Bandon said he needed someone to help him unload 13 kilograms of cocaine, and he offered them to Ross for \$10,000 a kilogram. Ross accepted, and he used his connections in Cincinnati to sell them. Ross later explained that he had done this as a favor to Bandon, because he himself had not needed the money.

Ross told the OIG that working in Ohio was very different from Los Angeles, because although Bandon

was still supplying cocaine at low prices, retail prices were much higher. Ross therefore made a huge profit on every sale. After Bandon moved to Miami, Ross dealt primarily with Bandon's partner in Los Angeles, "Jose," but Ross said he would involve Bandon in negotiations from time to time, and Ross went to Miami a few times to get drugs from Bandon. According to Ross, Bandon also introduced Ross to a supplier in New York and met with Ross and the supplier there on Ross' first trip to New York to pick up drugs. Ross stated that, on this occasion, he picked up the drugs in New York and either gave the money to the supplier in New York, or sent the money to Bandon in Miami. Ross also stated that Bandon continued to supply Ross' friends in Los Angeles.

Bandon denied to OIG investigators that he continued to deal drugs after he moved to Miami. He stated that he turned his customers over to Roger Sandino and Jose Gonzales, and that Ross had worked with Gonzales. Bandon said that Ross had involved him in negotiations with Gonzales a couple times because of problems they were having, but that he had merely called Gonzales to work things out, and had not made any money for this effort. Bandon denied having dealt with any supplier in New York on Ross' behalf.

### **3. Other Investigative Files and Cases on Ross**

Ross was never prosecuted for the huge drug empire that he presided over in Los Angeles in the early and mid-1980s. As noted above, a 1987 case pursued by the Freeway Ricky Task Force was dismissed by a local court for police misconduct, and the federal case against Ross was closed when deputies involved were accused of corruption.

Between 1986 and 1990, a number of other jurisdictions investigated Ross' activities, but none with any success. In October 1986, Ross was arrested on federal charges in Los Angeles for conspiracy to distribute cocaine in St. Louis, Missouri. The case was later dismissed for lack of evidence. The case stemmed from the arrest of Michael Wingo in St. Louis, who possessed cocaine and a significant amount of cash when he was arrested. In post-arrest statements, Wingo told DEA agents that Ross had supplied him with two kilograms of cocaine a week.

In March 1988, an OCDETF investigation was initiated against the "Ricky Ross organization" in Seattle, Washington. Investigators stated at the initiation of the investigation that Ross' organization was the single most important group distributing crack cocaine in the Seattle-Tacoma area. In April 1988, Derrick Hargress had been prosecuted in Oklahoma City for supplying gangs in Seattle with cocaine coming from Los Angeles and through Oklahoma City. Ross was identified as the source of the cocaine. The Seattle OCDETF case was not successful, and Ross was not prosecuted there.

DEA records from 1988 also show informant information suggesting that Ross traveled to New York City in August and September of 1988 to pick up 20 kilograms of cocaine. Another DEA informant reported that Ross had sold 7.3 kilograms of cocaine in Dayton, Ohio, on April 26 and 27, 1989, and had asked whether the informant would be interested in running a crack house for him. In May 1989, Ross was reported to have received five kilograms of cocaine and 20 guns in Fairfield, Ohio, in December

1988. Ross was also reported to have attended a meeting in Lexington, Kentucky, about the transportation of cocaine from Miami, Florida, on an unknown date.

According to DEA records, an Officer "Pulak" -- a police officer in a joint DEA task force -- opened a DEA file on September 3, 1989, with the objective of trying to seize assets owned by Ross that were believed to be the proceeds of drug sales. The case was closed in May 1990, following Ross' arrest on the Ohio charges (see below). Task Force Officer "Pulak" is believed to be former LAPD officer Stephen Polak, who Ross eventually testified against in the "Big Spender" cases.

The FBI had two files on Ricky Ross in addition to the Cincinnati file discussed below. One indicated he was a suspect in a 1988 bank robbery in Indianapolis, Indiana. A bank teller identified Ross from a photographic spread as the bank robber. The U.S. Attorney's Office in Indiana declined prosecution in this case. The other file involved an investigation of Ross and others for the theft of \$337,673 in jewelry from the Shane Company in Indianapolis on June 16, 1988. According to the FBI, the U.S. Attorney's Office in Indianapolis referred prosecution of this matter to local authorities.

## **4. Ross' Arrest on Federal Charges in Cincinnati**

### **a. Background of Investigation**

On September 28, 1988, after police in Carlsbad, New Mexico, had recovered nine kilograms of cocaine from luggage on a bus traveling from Los Angeles, they forwarded it to its addressees in Cincinnati for a "controlled" delivery. On September 30, 1988, Alfonso Jeffries was arrested when he attempted to pick it up. This seizure led the FBI and DEA field offices in Cincinnati to investigate allegations that the "Crips," a Los Angeles based gang, were flooding the Cincinnati market with inexpensive, high quality cocaine. Early investigative reports found that, beginning in 1987, Ricky Ross had recruited young blacks from Los Angeles to travel to Cincinnati to sell cocaine and crack on the streets. Most of these people were members of gangs, most notably the Crips. The recruits were given apartments, beepers, cocaine, and instructions on how to conduct street sales by using phone booths, pagers, and mopeds. The drugs were stored in the trunks of parked cars placed around the neighborhoods. Ross was known on the street as the "Six Million Dollar Man" in Cincinnati because of the perception that he was making a fortune there.

On June 8, 1989, ten individuals, including Ross and Jeffries, were indicted on drug charges in Cincinnati. The indictment charged that from about January 1, 1987 through the date of the indictment, Ross and the nine others conspired to distribute cocaine in Cincinnati. Ross was also charged with giving a false social security number to a law enforcement officer on two occasions. Cincinnati Assistant U.S. Attorney William Hunt, who handled the prosecution, told the OIG that witnesses were prepared to testify that, "on a good day," Ross' operation grossed over \$30,000. After Ross was arrested on state charges in Los Angeles in November 1989 for assault on a police officer, he was transported back to Cincinnati, and held without bail, pending trial on this indictment.<sup>(62)</sup>

## **b. Ross' Guilty Plea in Cincinnati**

Ross was soon able to obtain a favorable resolution on these Cincinnati charges, at least in part because of his cooperation in the corruption case in Los Angeles against the members of the Freeway Ricky Task Force. On September 5, 1990, Ross pled guilty to the drug conspiracy count in federal court in Cincinnati. In his plea, Ross stipulated that the appropriate offense level, given the amount of cocaine he handled and his acceptance of responsibility, was 32 (121-151 months). The Cincinnati U.S. Attorney's Office agreed that, "upon substantial assistance by [Ross] to the United States Government in an investigation conducted by the United States Attorney for the Central District of California," it would file a motion for a downward departure in Ross' sentence under Section 5K1.1 of the Sentencing Guidelines "if [Ross] continues to provide satisfactory cooperation." The plea agreement also stated that, if Ross did provide substantial assistance in the investigation in the Central District of California, the government would recommend to the court that the court depart downward to a sentence set forth under level 24 (51-63 months) of the Sentencing Guidelines.

Ross was sentenced in Cincinnati on February 8, 1991, but no motion for a downward departure was filed, because Ross' cooperation was not yet complete. Ross was therefore sentenced to 121 months in prison and three years supervised release -- a sentence within the guideline range.

## **c. Ross' Cooperation in Los Angeles Corruption Trials**

According to Los Angeles Assistant U.S. Attorney Michael Emmick, who handled some of the "Big Spender" cases against the Los Angeles deputies, these cases began with an undercover operation by the FBI to determine if deputies were skimming money from cash seized from drug dealers. Between 1989 and 1991, 35 deputy sheriffs and 6 related persons were prosecuted by the Los Angeles U.S. Attorney's Office, in 11 trials. One of these cases targeted the group of deputies known as the Freeway Ricky Task Force. The cases against the corrupt deputies gained steam when a member of that group, LASD Detective Sobel, agreed to cooperate. Ultimately, based on testimony from Sobel and a number of drug dealers, corroborated by evidence found in the houses of the deputies or their girlfriends, several deputies were charged with theft, civil rights violations, perjury, and tax counts.

One of the drug dealers from whom the U.S. Attorney's Office obtained testimony was Ricky Ross. He was granted "use immunity" on May 2, 1990, meaning that nothing he said at trial could be used against him in any subsequent criminal proceeding. The indictment against the deputies alleged, among other charges, that LAPD officer Stephen Polak had planted a kilogram of cocaine during the April 1987 incident in which Ross had been arrested (described above), and that deputy sheriff John Edner had fired first at Ross during that chase, then falsely claimed to have been returning fire from Ross.

Trial on this case began in August 1991, and ended five months later with a hung jury. Although the case was not retried, several of the defendants pled guilty after being offered favorable deals.

Assistant U.S. Attorney Emmick told the OIG that he had not wanted the Cincinnati U.S. Attorney's

Office to agree to a downward departure for Ross in Ohio, because there was no need for such consideration. Ross had already provided information and had appeared before the grand jury in Los Angeles under the grant of use immunity. But the Cincinnati U.S. Attorney's Office had decided to give Ross a favorable deal anyway, perhaps, according to Emmick, because of evidence problems or for some other reason.

Cincinnati Assistant U.S. Attorney William Hunt differed in his recollection. Hunt told us that initially he had no intention of giving Ross a break because he believed that he had a good case against Ross and was ready for trial, whether the Los Angeles corruption case was occurring or not. Hunt said that he was not inclined to offer Ross a plea agreement in an attempt to help out the Los Angeles U.S. Attorney's Office. Hunt stated that if it was not for the fact that the Los Angeles U.S. Attorney's Office was quite insistent that Ross be given a break, he would not have given Ross a downward departure.

On February 5, 1992, Assistant U.S. Attorney Emmick advised Cincinnati Assistant U.S. Attorney Hunt, by letter, of the nature and extent of the cooperation of Ricky Ross. Emmick stated that Ross had fully complied with the plea agreement and that his cooperation was "more than 'satisfactory' it was complete, candid, and forthright." Emmick stated:

Ross' trial testimony was quite long. He was on the stand for three to four days. He was cross-examined in excruciating detail about all imaginable subjects, including who his cocaine sources were, who was part of his narcotics organization, and what properties he purchased with narcotics proceeds and may still retain. Ross answered those questions without hesitation, and, in my opinion, did so honestly and candidly.

On February 7, 1992, Assistant U.S. Attorney Hunt filed a motion for a downward departure on Ross' sentence in Cincinnati, attaching the letter from Assistant U.S. Attorney Emmick. On March 25, 1992, the court reduced Ross' sentence to 51 months, to be followed by three years supervised release.

## **5. The Texas Case**

In November 1993, Ross, still in federal prison, was arrested on a warrant issued from Smith County, Texas, arising out of the interception of a call in May 1988 during which Ross had agreed to supply a cousin in Tyler, Texas, with two kilograms of cocaine. Ross pled no contest to Texas state charges of conspiracy to possess cocaine, and was sentenced to ten years, to run concurrently with his federal sentence in Ohio. At the completion of his federal sentence in November 1993, Ross began serving nine months in Texas state prison. He was paroled in September 1994 by the state of Texas.

## **E. Media Attention After Ross' Release from Prison**

Upon his release from prison, Ross became the subject of considerable media attention. An article in September 1994 by Jessie Katz in the Los Angeles Times told of Ross' vow to "help youngsters avoid his mistakes." Katz wrote:

The notorious Los Angeles drug lord known as Freeway Rick, who once boasted that his coast-to-coast cocaine empire grossed more than \$1 million a day, walked out of a Texas jail Wednesday and vowed to return home in search of redemption. Ricky Donnell Ross, 34, who in the 1980s probably rose faster and higher than any other drug trafficker from the streets of South Central Los Angeles, said he hoped to head back to his old neighborhood as soon as possible and devote his life to warning youngsters about the mistakes that kept him locked up for most of the last five years.

According to the article, Ross was "broke," having lost his drug profits to "attorney fees, shaky business deals and double-crossing rivals." In the article, Ross stated that he learned to read and write in jail and had plans to turn an old theater he had purchased with drug proceeds into a multicultural performance theater and community educational facility.

The article quoted Los Angeles probation officer Jim Galipeau as saying that Ross was "the biggest-time dope dealer to come up from the streets of South Central" and that Ross' reputation was enhanced by his eschewal of flashy jewelry, cars and clothes. "He was more like a Robin Hood-type guy. You never heard of him getting high or drinking or beating women or dealing dope to kids. The guy really had a reputation for helping people out and giving money back to the community."

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62. As discussed in section A above, the assault charge was later dismissed because of Ross' "pending federal cases in other states."

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## **F. The 1996 Case against Ross in San Diego**

Ross did not bask in this favorable publicity for long. He soon became involved in drug trafficking, under circumstances explored when he stood trial in San Diego in 1996. The prosecution's principal witness in this case was Danilo Bandon.

### **1. Background**

#### **a. Indictment and Information**

On March 4, 1995, Ross, Leroy Brown, Curtis James, and Michael McLaurin -- the person Ross credited with first introducing him to crack -- were indicted in federal court in San Diego, on cocaine conspiracy and distribution charges. The government also filed an information against Ross, notifying him of its intent to seek a mandatory life sentence based on his two prior drug convictions.

In response to the information concerning prior convictions, Ross contended that he really had only one prior drug offense because the drug transaction for which he was convicted in Texas was encompassed by the Ohio conspiracy. On November 21, 1996, the district court ruled that the Texas and Ohio convictions were two separate prior convictions and that, if Ross were convicted, the court consequently would be "required to impose a mandatory sentence of life imprisonment."

#### **b. Government Disclosures to Defense Counsel**

On February 15, 1996, the prosecutor, Assistant U.S. Attorney O'Neale, informed Ross' defense counsel, Alan Fenster, that the confidential informant in the case was Oscar Danilo Bandon. In a letter to defense counsel, O'Neale provided Bandon's criminal history and noted that the government would also be eliciting testimony that "before his arrest in May, 1992, Mr. Bandon was for many years a large-scale cocaine broker." O'Neale's letter outlined the benefits that Bandon had received from the government, noting that most of these benefits were not related to the Ross case. It listed Bandon's downward departure from a recommendation of a life sentence and \$4 million fine to 48 months and no fine, and a later further reduction to 28 ½ months incarceration. The letter stated that the government had not gone forward with deportation proceedings against Bandon, and that he therefore retained the permanent resident status that he had prior to his May 1992 arrest.<sup>(63)</sup> It also stated that Bandon had received payments for his cooperation in the Ross case: \$500 for information and expenses on February 24, 1995; \$2,000 for information and expenses on March 16, 1995; \$1,000 for information and expenses on March 15, 1995; \$2,000 for information and expenses on April 4, 1995, and \$40,000 as a reward on May 22, 1995.

### **2. The Government Case**

Trial in Ross' case was held from March 5 through March 19, 1996. On the first day of trial, defendant

Leroy Brown entered a plea of guilty without a plea agreement with the government.

In the government's case, Bandon took the stand and testified as follows. Bandon said that he first began dealing drugs in 1982 with Norwin Meneses and that most of their profits went to support the Contras, with Bandon keeping only enough to cover his expenses. In late 1983, he began to use the Colombian sources he had met through Meneses to deal on his own and for his own profit. In approximately 1983, Bandon began selling cocaine to Ross. Bandon said he had long wanted to meet Ross after hearing from friends how much cocaine Ross was buying from them, and when one friend fled the country, Bandon took over as a source for Ross. Between 1983 and 1986, Bandon, according to his testimony, obtained Colombian cocaine on credit, and then provided Ross and four or five other customers with a total of about 100 kilograms a week. Bandon related how Ross tended to bargain with him, claiming that other suppliers could beat Bandon's prices. Bandon testified that, at his peak, he was delivering to Ross about 100 kilograms a week, and Bandon believed Ross' other suppliers were delivering at least 50 additional kilograms.

On the issue of his INS status, Bandon testified that he had come to the United States with a tourist visa and then applied for political asylum. He said that he had also applied for a green card and had been issued one, but had been arrested when he went to pick it.

Bandon testified that after his arrest, he had agreed to cooperate with the government and had pled guilty, fully expecting to serve the ten-year mandatory minimum specified in his plea agreement. No promises of a lower sentence had been made. After his sentence was reduced and he was released from prison, he had learned that he would not be deported and that he would not have to serve any period of supervised release. Bandon also testified to the monetary payments that he received from the United States and that he was required to pay income tax on this money.

Bandon testified that the government had never told him to target Ross. But Bandon had been in contact with several members of Ross' organization and had himself targeted those people. On October 16, 1994, Ross had called Bandon collect in Nicaragua, and Bandon had taped the call, as he frequently did since he had begun cooperating with the government. This was the first time the two had spoken since Ross had been released from prison. After Bandon asked if Ross remembered Mauricio -- the driver Bandon had used to deliver cocaine to Ross years before -- Bandon said that Mauricio was in Nicaragua and had "everything," but that they needed some money to be able to "move." When Ross asked "what price?," Bandon responded that it was "11," meaning \$11,000 per kilogram of cocaine. Ross stated that the quoted price was good and asked Bandon to let him know as soon as possible. Ross also asked Bandon if he could get him "a little something" right away so Ross could make some money.

On December 4, 1994, calling in response to a message from Bandon, Ross asked if Bandon could sell him six kilograms of cocaine. On December 16, 1994, Ross introduced Bandon to a man identified as "Chris," who asked Bandon to deliver 50 kilogram of cocaine to Atlanta. Ross told Bandon that Chris would be in charge of the business and deal with Bandon, but that Ross would be in charge of the money. Eventually, Bandon informed Ross and Chris that he could not deliver the cocaine.



On February 23, 1995, at Ross' request, Bandon met with Ross, Leroy Brown, and Curtis James in San Diego. Bandon said he had 150 kilograms of cocaine available, but that 50 kilograms had already been promised to another customer. Ross announced that they would buy all the cocaine, and that they had \$150,000 in the car. Bandon said he would need \$200,000 as a down payment for 100 kilograms, at \$10,000 per kilogram. The next day, when Bandon complained to Ross during a telephone call about an unpaid debt, Ross assured Bandon: "It ain't worth it. Let it go. Let it go. . . . We're going to make -- we're going to make a lot of money."

On February 28, 1995, Ross, Brown, and James met with Bandon again. The meeting was tape recorded. After speaking with Ross, Brown, and James, Bandon called over DEA SA Pedro Pena, who was acting in an undercover capacity as a representative of the sellers of the cocaine and pretending that he did not speak English. They negotiated for the purchase of 100 kilograms of cocaine, including the amount of downpayment and the place of delivery. Ross and Brown did most of the negotiating and also asked for a price on heroin.

On March 2, 1995, after several recorded telephone conversations, Bandon told Ross to meet him at the Denny's restaurant in Chula Vista, California, for the delivery of the drugs. When Ross said he did not have the full \$200,000, but only had \$170,000, Bandon responded that he would have to "check with the people" to see if this amount was acceptable or if they would have to deliver less cocaine. Ross stated "We can do the whole thing, man, no problem."

Later that day, Bandon, accompanied by SA Pena, met Ross, Brown, and James in the parking lot of the Denny's restaurant. After Brown gave a bag of money to Pena, the group followed Bandon and Pena to another parking lot where a white Blazer containing the cocaine was parked. SA Pena gave the keys to one of the men.

The government called a number of DEA agents as witnesses to the arrest. DEA SA Pena told of how Brown had given him a bag of money in the parking lot. Thereafter, Pena had given the keys to the Blazer to James. Other DEA agents testified that Ross then entered the Blazer and examined one of the boxes containing the cocaine. Michael McLaurin, who first appeared at the site of the exchange, got in to drive the Blazer, and appeared to be looking over Ross' shoulder at the cocaine. Ross then prepared to drive away in McLaurin's Ford pickup truck, and McLaurin to drive away in the Blazer. As agents moved in to make the arrests, McLaurin sped up in reverse in the Blazer. The Blazer had been equipped with a "kill switch," which enabled the agents to stop the car's engine. Ross, driving McLaurin's Ford pickup truck, fled the scene at high speed, eventually crashing the truck. He then attempted to flee on foot before being apprehended.

Bandon was cross-examined extensively on the issue of why he had not been deported from the United States and how he got his green card. Defense counsel also quizzed him about his relationship with the Contras, his meeting with Enrique Bermudez, and on the allegations that he had continued to engage in drug trafficking after his release from prison.

### 3. The Defense Case

In the defense case, Ross' attorney called Los Angeles Assistant U.S. Attorney Michael Emmick, the prosecutor in the "Big Spender" trial, and elicited testimony about the nature of that case and the extent of Ross' cooperation. Ross' defense, however, focused on a claim of entrapment. Dr. Melvin Booque, Ross' former tennis coach, testified that Ross had complained that someone was harassing him to do a drug deal despite Ross' protests that he was no longer involved in the drug trade and had "gone straight." James Galipeau, a Los Angeles probation officer who had worked with Ross on anti-gang projects, testified that Ross was "addicted" to the drug business and very vulnerable after his release from jail. Ross' girlfriend, Marilyn Stubblefield, testified that Bandon and his wife had made frequent calls to Ross.

Ross testified on his own behalf and told of his history in the drug trade. He testified that his business had grown rapidly once Bandon began to supply him cocaine at a low price. Ross said that he and Bandon became friends as Bandon taught him about the drug trade. Ross testified that he tried to get out of the drug business after his run-in with the corrupt officers in Los Angeles, but Bandon kept trying to pull him back in. Ross said that he always did what Bandon wanted him to do because "[H]e was Danilo, you know. He was -- he was -- he was like my God, my number one person. . . . I wanted to be Danilo."

Ross testified that Bandon was still involved in the drug trade after he moved back to Miami, and that both Ross and his partner Ollie Newell negotiated drug deals with Bandon there. Ross testified that even after he moved to Cincinnati to get out of the drug business, Bandon kept pulling him back in. After Ross moved back to Los Angeles from Cincinnati, he tried to stay away from drugs and follow his dream of working on a performance theater for youth in his neighborhood, but instead found himself arrested on the Ohio charges.

Ross said that when he was released from prison in Texas, he was working as a garbage hauler, trying to earn money to pursue his dream of organizing a community theater. But Bandon contacted him and asked him to call Bandon collect in Nicaragua from a pay phone. When Ross called, Bandon told him that "Tony" had stolen money from Bandon and that Bandon needed Ross' help to earn money back. Ross testified that he repeatedly told Bandon that he did not want to be involved in drugs, but that he nevertheless maintained contact with Bandon because he wanted to sell Bandon a car. Ross said that he asked about the price of drugs in the tape recorded conversation because it was just a habit to ask, although he had no desire, or ability, to conduct a drug transaction. Ross testified that he was "in the palm of [Bandon's] hand. I was like his puppet. He could pick me up. You know, he could tell me to do almost anything and I would have done it for him." Ross said that Bandon had asked Ross to kill someone for him before, but that Ross had refused because he had "a strong feeling about killing people."

Ross stated that he had not participated in the negotiations between "Chris" and Bandon, but had merely been present. Finally, Ross testified that he had agreed to do the drug deal with Bandon because Leroy Brown was lending Ross money for his community theater and had promised to forgive the loan if Ross

introduced him to Blandon. Ross testified that he had never intended to engage in drug dealing until Blandon started calling him.

#### **4. Conviction and Sentence**

On March 19, 1996, the jury returned verdicts of guilty against Ross on both counts. It also convicted Curtis James, but acquitted Michael McLaurin. On November 19, 1996, Judge Marilyn L. Huff sentenced Ross. Had this been Ross' first offense and had he pled guilty, the sentencing guidelines would have required a sentence of approximately 135-168 months. This was based on a sentencing guideline level of 33, which takes into account the 100 kilogram quantity of cocaine and a reduction for acceptance of responsibility.

However, because of Ross' two prior felony convictions, which the government noted in the special information it had filed, Judge Huff was required to, and did, sentence Ross to a term of life imprisonment. Title 21, United States Code, Section 841(b), provides:

If any person commits a violation of this subparagraph . . . of this title after two or more prior convictions for a felony drug offense have become final, such person shall be sentenced to a mandatory term of life imprisonment without release . . . .

Curtis James was sentenced to 135 months in prison. Leroy Brown, who pled guilty on the day of trial, was sentenced to 92 months in prison.

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63. As we discussed in the chapter on Blandon, this statement about Blandon's immigration status was not correct, although O'Neale did not know that.

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## G. OIG Analysis of Ross' Allegations

The San Jose Mercury News and Ross himself have made a number of allegations relating to the prosecution and sentencing of Ross. Chief among these claims are: (1) Ross was targeted even before his release from prison because of his cooperation against the corrupt police officers in the "Big Spender" trial or because of racism; (2) federal prosecutors improperly barred Ross' defense attorney from pursuing the issue of the CIA and the Contras at Ross' trial, possibly with the encouragement of the CIA; (3) Ross should not have been convicted because Bandon imported and sold cocaine on behalf of the Contras with the knowledge of the United States government in the 1980s; (4) the government violated its constitutional obligation to disclose certain information it had about Bandon, and (5) Ross was unfairly punished when compared to the treatment of Bandon.

The similarities between Ross' claims and those in the Mercury News articles are not coincidental. Several times during Ross' trial, Assistant U.S. Attorney L. J. O'Neale noted for the record that Gary Webb was present in court. In a "Timeline" prepared by Webb and provided to the OIG by Swiss journalist Georg Hodel, who helped Webb prepare the articles, Webb quotes some cross-examination of Bandon from the Ross trial and states in parentheses, "one of my questions, by the way." Ross told the OIG that Webb was the source of the cross-examination questions that Ross' attorney put to Bandon about the Contras and the CIA. Ross also told the OIG that he had initially negotiated with the same agent who had arranged a movie deal for Gary Webb based on the "Dark Alliance" series. Ross now plans to produce his own movie about his life, so he can guarantee that the story is told correctly.

We will address each of these main allegations raised by Ross.

### **1. Allegation that Ross Was Improperly Targeted Before He was Released From Prison Because of His Prior Testimony Against Corrupt Police Officers or Because of Racism**

Ross has alleged that DEA targeted him prior to his release from prison, despite a lack of any evidence that he was engaged in drug trafficking, because of his cooperation against police officers in the "Big Spender" trial. He later alleged that he was targeted by Bandon because of Bandon's dislike of African-Americans. Our review did not support either allegation, and the trial court also rejected these claims.

#### **a. Allegation of Improper Targeting of Ross Before Release from Prison**

In the August 12, 1994, memorandum that DEA SA Jones prepared for Assistant U.S. Attorney O'Neale in connection with Bandon's successful Rule 35 motion for a reduction of sentence, Jones set out a "list of significant violators and other information provided by Bandon after his sentencing." Among other items, this memorandum stated:

Ricky ROSS - Mr. Bandon remains in contact with Ricky ROSS and his associates in the Los Angeles area. ROSS and associates are responsible for the distribution of major

quantities of rock cocaine in the Southern California area. It is anticipated that Mr. Bandon will be able to reestablished [sic] himself with Ricky ROSS and his organization if released from custody.

When Bandon was released from prison in September 1994, Ross was still in prison, but was himself released shortly thereafter. According to O'Neale, Bandon's wife, Chepita, was friends with Ross' former secretary. Shortly after Ross got out of jail, Ross' former secretary called Chepita and said that Ross wanted to talk to Bandon. Chepita gave her Bandon's number in Nicaragua. Chepita then called Bandon and told him that Ross was going to call him collect. On October 16, 1994, Ross called Bandon in Nicaragua and mentioned a proposed drug deal. The call was taped by Bandon. O'Neale learned about the tape, but said that no one thought much of it at the time because it did not sound like Ross would be able to come up with any money in order to complete a drug transaction.

O'Neale said that Ross later introduced Bandon to someone named "Chris" who wanted to do a drug deal. Once again, no one believed that Chris was able to go through with the deal. Bandon told the DEA that there was "no way" that Chris could actually complete a deal. But Ross came back to Bandon on February 23, 1995, and talked "real money," according to Bandon, making it appear as though Ross was prepared to go through with a narcotics transaction. O'Neale said he did not open a case on Ross until this time. O'Neale characterized it as a "reactive" case instead of proactive. He said the case was completed in about a week. Leroy Brown acted as the "money man" and was the main defendant.

DEA SA Jones told the OIG that he was not familiar with Ross when Bandon first started discussing him. He recalled that the investigation of Ross started only after Ross called Bandon collect in Nicaragua and discussed a possible narcotics transaction. Jones also stated that Ross had not been targeted because of his testimony against the Los Angeles officers. Jones said that he could not even recall whether he had known about this testimony when the investigation started or had learned of it later.

As discussed above, SA Jones was cross-examined about the August 1994 memorandum he wrote regarding the potential targets that Bandon could work on. Jones testified that he "used Mr. Ross' name as an indicator" of the group of people with whom Ross associated. Jones testified that when Bandon got out of prison, he told Jones that Mike Smith would probably be the most productive target of the group that included Ross.

The government later filed a declaration in support of post-trial motions from Jones stating that, as Jones had testified at trial, he had written a memorandum at the time of the Rule 35 motion in Bandon's case detailing the past and potential value of Bandon as an informant. His statement in the memorandum that "Ricky Ross and his associates" were targets was intended to mean the "Ross organization, members of which were continuing in drug trafficking." The declaration stated that Ross was not personally a target of any investigation at that time. Rather, there were two other specific members of the Ross organization who were targeted. The declaration also stated that after Ross telephoned Bandon in Nicaragua on October 16, 1994, Jones followed his usual habit and custom when he considered someone a possible target by ordering a Department of Motor Vehicles (DMV) records search, as well as a photograph and

search of criminal history records. Jones' declaration reported that he ordered a DMV record search for Ross and his photograph on October 20, 1994, after the collect call from Ross to Blandon. Jones attached a copy of the search request, which included a computer generated date of October 20, 1994 on it.

More evidence that Ross was not targeted in retaliation for his testimony against the corrupt police officers comes from the fact that the government gave him an opportunity to cooperate after his arrest. SA Jones told the OIG that Ross had announced that he wanted to cooperate immediately after his arrest, and had provided information on a real estate developer with whom he was associated. Ross made some phone calls to the realtor, but the DEA agents decided not to place Ross on the street due to his past record and flight risk. SA Jones told us that the DEA would not have even considered releasing Ross, given his long criminal history, his recidivism in the drug industry, and his high-speed flight from the arrest scene. Efforts to make a controlled delivery of drugs to the realtor were unsuccessful. Ross also spoke with Bureau of Alcohol, Tobacco and Firearms (ATF) Task Force agents about the realtor's involvement in an arson, but the ATF agents soon concluded that Ross was also involved with the crime. Assistant U.S. Attorney O'Neale recalled that Ross made a half-hearted attempt to cooperate after his arrest, but that it never went past the preliminary stages. O'Neale characterized Ross' efforts to us as "self-serving and ineffectual."

In response to the defense allegations that the government's actions constituted outrageous government misconduct because it allegedly released Blandon to target Ross, the trial court found: "Merely providing a defendant the opportunity to commit a crime is not outrageous conduct. Ross did not have to participate in the crime or bring other drug dealers in contact with Blandon. Furthermore, Blandon was not solely targeting Ross, but was providing extensive substantial assistance to the government." The court found that the declaration of Jones and DEA radio operator Everett Penny, who ran Ross' criminal record and ordered his photograph on October 20, 1994, corroborated the trial testimony of Jones that: (1) Ross had not been considered as a possible target until after the October 16, 1994, phone call in which Ross asked Blandon for cocaine; and (2) it was not until October 20, 1994, that Agent Jones ordered information and a photograph of Ross. The court added: "Even if Blandon decided that Ross was one of his former drug associates that he would contact earlier than October 1994, this does not constitute outrageous government conduct." The court also found that there was ample evidence to support the jury's rejection of Ross' entrapment defense.

Based on our review, we also conclude that the government did not improperly target Ross. We will not address the narrower question of whether the government's dealings with Ross constituted entrapment, since entrapment was an issue for the jury in Ross' case. The jury rejected this defense, the trial court found no reason to disturb its verdict, and the matter can be considered by the Ninth Circuit Court of Appeals, where Ross' appeal is pending.

It should be noted, however, that the jury did not even get to consider some additional evidence that Ross was predisposed to buy cocaine from Blandon, which was relevant to the entrapment claim. After Ross' trial, an inmate named Jack Hutchinson contacted the prosecution and reported that he had been incarcerated in the MCC with Ross in the summer and fall of 1995, when they had become friendly.

According to Hutchinson, Ross had said that, immediately after Ross' release from prison in Texas, he had returned to Los Angeles to reestablish himself in the drug business and was selling approximately 25-30 kilograms of cocaine a week. Ross said that he had usually received the cocaine from Leroy Brown, with whom he had formed a record company so that Ross would have an explanation for his association with Brown, a well-known drug dealer. Ross also had spoken of spending time with a probation officer named Jim Galipeau in order to conceal his drug activities. Hutchinson also reported that Ross said he was already in the drug business when he originally met Blandon, and that Blandon charged him more for cocaine, but "cut him some slack by fronting the cocaine."

Reports from jailhouse informants must always be treated with some caution. And, as we note below, we found Hutchinson not to be credible on other matters.

### **b. Allegation that Blandon targeted Ross because of racism**

On September 9, 1996, Ross' defense counsel, Alan Fenster, filed a motion to dismiss Ross' convictions and a motion for the production of certain evidence. These motions stated that Fenster had been called by Rafael Cornejo, who was then being prosecuted in another federal narcotics case. Cornejo had told Fenster about 60 tapes that Cornejo had received during discovery in his case. The tapes had been recorded during the DEA's investigation of Blandon in 1990 and contained drug-related conversations involving Blandon. According to Fenster's motion, these tapes contained numerous racial slurs against African-American people, "as well as statements of Blandon indicating his predisposition to target African-Americans as particular recipients of his cocaine distribution network."

The government noted in its response, however, that although someone on the tape did use a racial epithet, that person was not Blandon. The epithet was made by another person after Blandon had stated that his customers were not Japanese but black. Blandon did not respond to the racial epithet on the tape, and the government noted that Blandon made no statements suggesting any predisposition to target African-Americans.

## **2. Allegation that the Government Prevented Ross from Raising the CIA Issue at Trial**

Prior to trial, Ross' defense counsel Alan Fenster complained that the government had failed to turn over, as required by Maryland v. Brady, documents that allegedly showed that Blandon sold drugs for the Contras as early as 1979. At a hearing, Fenster noted: "We know that the CIA became involved with that whole operation and it was guns and drugs and monies supplied by the government and it was a whole corrupt situation."

On March 4, 1996, the court ruled that the government had not violated Brady by failing to provide a CIA file regarding Blandon because there was no evidence that any such file existed. The court also stated that the defense had an obligation to follow procedures under the Classified Information Procedures Act (CIPA) if it wished to obtain classified information about any subject, but the defense had not done so in this case. However, the court denied the government's written motion to restrict

defense questioning about the CIA, stating "I don't see that the national security and the interests of the United States are greatly impinged by this."

However, although Ross' defense counsel was able to raise the issue of CIA involvement with Bandon and drug dealers, he did not do so.

After Ross' conviction, the court ordered that the CIA declare whether it had any files on Bandon. On November 1, 1996, CIA Information Review Officer William H. McNair filed a declaration with the court stating that the CIA had identified no records regarding Ross and had no records that the CIA had "any kind of a operational, contractual, or employment relationship with Bandon, Menesis [sic], Lister or Weekly."

McNair's declaration also discussed what information was in CIA records about Bandon, Meneses, and Lister. The information in McNair's declaration consisted primarily of inquiries to the CIA about them, when they claimed a CIA connection and the CIA's responses, which we have described previously in this report.<sup>(64)</sup>

We find no impropriety in the efforts by the prosecutors to prevent Ross from raising a defense regarding the CIA that the prosecutors believed had no basis in fact and that the prosecutors thought was a calculated effort to deflect the jury's attention from the issue of whether Ross had conspired to traffic in narcotics.

### **3. Allegation that Ross was Not Guilty Because of Bandon's Affiliation with the Contras and the CIA**

Ross has gone beyond claims relating to withheld documents and also argues that because the government was involved in Bandon's drug dealing, the case against Ross should be dismissed. On August 22, 1996, Ross' counsel moved that the indictment be dismissed because of an alleged United States government role in supplying cocaine to Ross for resale to African-Americans throughout the United States. The motion argued that the government had "created and nurtured [Ross'] role as a major drug dealer."

In response to these defense claims, the court found, as an initial matter, that government importation of cocaine into this country in the early 1980s would constitute outrageous government conduct, but it would not be a legal defense to Ross' cocaine trafficking in 1995, which was the issue at his trial. The court stated:

Noting that defendant Ross does not allege that the CIA had anything to do with his specific 1995 drug transactions, the court finds that these alleged CIA activities of the early 1980s are far too attenuated to constitute a legal defense for these convictions. Nevertheless, the court will address the CIA issues raised by defense counsel.



In examining the "CIA issues," the court found that, as noted above, the CIA had conducted a record search and reported to the court that there was no record of any Agency relationship with Ross, Bandon, Meneses, Lister or Weekly. The court also found that there was no merit to the claims of CIA involvement in drug trafficking and of interference with the October 1986 LASD search warrants. The court stated that the San Jose Mercury News articles written by Gary Webb were not evidence and could not be relied upon to support the defense position. The court stated that many prominent newspapers had criticized the Webb articles and that:

[T]he San Jose Mercury News itself now states that it never said that the CIA was responsible for distributing crack cocaine in the United States. Therefore, not only are these newspaper articles not legal evidence, but this "source" for Ross' "proof" that the CIA was involved in distributing cocaine to support the Contras has itself denied that it ever made such a claim. Furthermore, the court has serious questions about the journalistic impartiality of news stories written by an investigative reporter who was negotiating a book or movie deal about the subject matter of the articles around the same time the newspaper is purporting to report the news. . . . The same agent who represented Webb also offered a movie deal to Ross, until Ross ceased the services of that agent.

#### **4. Allegations of Brady Violations**

After his conviction, Ross again alleged that the prosecutors failed to provide all information on Bandon material to its defense. The trial court rejected this claim and found that the government had acted properly. The OIG does not have any additional information than that before Judge Huff when she made her ruling. An appeal in this matter is pending, and the appellate court is the proper forum for review of the court's ruling. We do not believe that the OIG should review the court's ruling on these Brady violation allegations, especially since this ruling is subject to appeal to an appellate court. However, we set out below facts relating to this allegation.

On March 11, 1996, in the middle of trial, Assistant U.S. Attorney O'Neale informed the trial court that he had received information that he believed could constitute Brady material. O'Neale had spoken to FBI SA Keith Bennett who told him that, on February 21, 1996, he had taken a proffer from a cooperating defendant named Castrillon. Castrillon had said that in the summer of 1995, a Nicaraguan named "Oscar" had paid Castrillon to recruit drivers to smuggle cocaine and marijuana across the border. About a week later, Castrillon's lawyer told SA Bennett that Oscar's name was "Oscar Blaydon" and gave Bennett a telephone number that was an unlisted number subscribed to by Bandon's wife. O'Neale noted that, although the government did not believe Castrillon's information to be accurate or reliable, O'Neale was notifying the court so that it could determine whether the information constituted Brady material that should be turned over to the defense. The court ordered that the statement should be disclosed to the defense.

On August 6, 1996, after the trial had ended, the government again submitted potential Brady evidence to the court in camera for its review. The evidence was a statement from Karl Most III -- a defendant in

an unrelated methamphetamine distribution case -- taken on July 10, 1996, in which Most had told of meeting a "major cocaine trafficker" in December 1994 in Chula Vista, California. Most was told that the dealer's name was "Oscar" and nicknamed "el profe" (for "the professor"). Most stated that he knew Ricky Ross from prison in Arizona and the MCC in San Diego, and that when Ross had showed Most a picture of Danilo Blandon, Most had said "it's the same guy." The government argued that Most's statement was not credible and had been manufactured by Ross, because Most included facts known to Ross and that Most had included certain key mistakes in his statement. The court found that the information was not Brady material that would be helpful to the defense.

On November 21, 1996, the court ruled that the government had not violated its obligations under Brady such that a new trial or dismissal would be warranted. The Court found that all of the defendants' allegations of Brady violations concerned Blandon, and stated that Ross' claim:

assumes that it was solely the testimony of the confidential informant [Blandon] which led to the guilty verdicts, and ignores all the other evidence that was introduced. The court finds the defendants' convictions were fully supported by Ross' taped telephone conversations, the actions of the defendants in the presence of an undercover agent, Ross' flight from the scene, and Ross' own trial testimony.

Addressing claims of improperly withheld "CIA information," the court found that the defense failed to follow the proper procedures under CIPA to obtain information from the CIA. The court also found that the CIA records that existed -- which were provided to the court prior to sentencing, and consisted of the request for information about Blandon by the FBI following the LASD 1986 search warrant, discussed in Chapter II, above, and the response from the CIA that none existed -- would not have been material to the defense and thus could not constitute a Brady violation.

In addition, the court ruled that the government's failure to turn over files related to prior investigations of Blandon did not constitute a Brady violation. The court noted that Brady requirements do not mean that the government must turn over "every bit of information that might affect the jury's decision; it need only disclose information favorable to the defense that meets the appropriate standard of materiality." The court found that cross-examination of Blandon about his prior drug dealing had been extensive and that any additional information would only have been cumulative.

With regard to the statement by Castrillon, the court noted that defense counsel had been provided with a copy of the statement and given an opportunity to cross-examine Blandon about it. As for the statements of Karl Most III, the court noted:

Having presided over the trial in this case and having reviewed the post trial statement made by Most in camera, and having numerous contacts with Most in his own case, the court found at the time that this information did not constitute Brady material that would be helpful to the defense and declined to turn it over to the defense. The court also notes that Most has recently filed two of his own lawsuits against the government. Most's first

suit contains the statement "U.S. Gov - evil empire has taxed my body and soul for 20 years," and the second is against the CIA based upon many of the same allegations Ross has also made. Accordingly, the court concludes that the statement is not discoverable under Brady.

## 5. Two additional post-trial matters

We will address two other post-trial matters relating to allegedly undisclosed information, which the court did not address. According to San Diego U.S. Attorney's Office records, a private investigator named Jeremiah S. Boehmer, who was employed by defense counsel for Ross, swore in an affidavit dated February 14, 1996 that he had interviewed Gary Webb and that Webb had showed him a copy of a document purported to be from the Iran-Contra Independent Counsel files. Boehmer related in his affidavit:

This document, identified as SAC LA 58A1588 under code name "Front Door", contained the name of Oscar Danilo Bandon-Reyes, and indicated that he was a participant in said conspiracy as a seller of drugs for the United States Government for purposes of raising money to pay for weapons to be used by the Nicaraguan insurgency.

According to Boehmer, Webb had refused to turn over a copy of the document, claiming journalistic privilege.

As noted previously, "Front Door" was the code name for the FBI's investigation of alleged Neutrality Act violations by United States government officials in the covert sale of arms to Iran -- an investigation later taken over by the Independent Counsel in the Iran-Contra Investigation. The OIG obtained the only FBI document from Los Angeles related to code name "Front Door" that was provided by the National Archives to Gary Webb. The document is a cable recounting the interview of Lister's real estate agent, discussed in Chapter V, section E, above. The cable, dated December 12, 1986, recounts: the open FBI drug investigation on Bandon; Lister's allegations about his "CIA contact" when his house was searched by the LASD in October 1986; and Bandon's attorney's alleged comment that he thought the CIA "winked at this sort of thing." The cable does not provide any factual basis for Boehmer's claim that the document indicated that Bandon was selling drugs on behalf of the government to help the Contras.

In addition to the cable provided to Webb, the OIG has reviewed all the documents relating to Bandon in the FBI "Front Door" file. The only other documents relating to Bandon in the "Front Door" file are the bank records that were seized from Bandon's house in October 1986 and later forwarded to the Independent Counsel for review because they appeared to be Contra bank records.

A similar story of allegedly suspicious official documents came from inmate Jack Hutchinson (whose claim about Ross is described previously in this section). When the OIG interviewed Hutchinson in the federal prison in Indiana, he stated that in the summer of 1995, while he and Ross were inmates at the MCC in San Diego, Ross had received a manila envelope from a reporter that contained reports

concerning Blandon. These documents were stamped "Property of U.S. Government, and May Not Be Copied or Reproduced." Hutchinson said that the documents were on CIA and DEA letterheads and pertained to a 1983 investigation of the Blandon organization in Sacramento, California. Hutchinson alleged that the documents indicated that Blandon had been associated with Colonel Oliver North and that Blandon had imported 330,000 kilograms of cocaine for Colonel North. Hutchinson also asserted that one of the documents indicated that Blandon had \$2 billion worth of assets that were seized by the government. One of the documents allegedly mentioned that Blandon was an outside contractor for the CIA.

The OIG did not find Hutchinson to be a credible witness. The OIG reviewed DEA, FBI, and prosecutive files on Blandon and did not find anything suggesting that Blandon had any affiliation with Oliver North or that Blandon was a contractor for the CIA. In addition, Hutchinson's allegations that Ross and Ross' attorney possessed documents indicating Blandon's association with North and the CIA make little sense, since they presumably would have used them at trial (or at least made them public) if they had had them.

## **6. Allegation that Ross was just a "little fish"**

Another complaint by Ross is based on a comparison of Ross and Blandon's criminal activities and the sentences they received. Ross has essentially challenged the "fundamental fairness" of the system, stating that Blandon, a big fish, has gone free; and Ross, a little fish, is in prison for the rest of his life. Ross told us:

The system is set up to where the big fish go to prison for the longest sentences. In this situation, the big fish didn't do no time, the little fish did four times more time than the big fish."

Ross went on to suggest:

I believe it's a black thing. We're the only ones that get punished. . . . I don't think it's Gary's story that really shook everybody. Just, the black community know. I mean, everybody in the black community know how much time you get when you go to prison because people like me call home and tell them, you know. Man, they gone crazy here. When they hear this guy gets 28 months. That's sickening to anybody."

While such claims of disparate treatment are inherently subjective and highly charged, we believe it is appropriate to make several points regarding Ross' claim. First, Ross can hardly be called a "little fish." Ross admitted that he got his drugs from Blandon and from another supplier, and Blandon stated that Ross had at least four suppliers. Whatever the truth of the matter, the fact remains that Ross has admitted to making over a \$1 million a day on his good days and to having about 30 people working for him. Ross told the OIG that he was the "biggest game" in Los Angeles "at one time." Allegations that Blandon was a large-scale supplier of cocaine are certainly true; allegations that Ross was a simple

street-level dealer are not. Blandon and Ross were both big distributors; their relationship was like that of a wholesaler and a retailer in the legitimate business world.

Second, Ross suggests that this racist motivation is shown by the deal the government gave to Blandon, after his arrest and cooperation in undercover investigations. However, Ross also received a lenient sentence after his arrest in Cincinnati. He told the OIG that, "my whole time in prison I never seen anybody beside myself on the first deal that I got sell as much dope as Danilo and get probably the best deal that anybody ever got in America." [Emphasis added.] And, of course, Ross was not even held accountable for his crack empire for quite some time, ironically benefiting from the corruption of the LASD Task Force that initially targeted him.

O'Neale and Jones also made it clear that they gave Ross the opportunity to cooperate after his arrest in San Diego in 1996, but that Ross' efforts were "self-serving and ineffectual." Ross' high-speed flight from the arrest scene, his unsuccessful efforts to cooperate in an arson case that ATF investigators later attributed to Ross himself, and his two prior drug convictions are additional factors that likely bore on DOJ's decision not to continue efforts to work with Ross. These factors also clearly differentiate Ross from Danilo Blandon.

In the end, the chief difference between Blandon's sentencing in San Diego in 1994 and Ross' sentencing there in 1996 was that the government moved for a downward departure in Blandon's sentence based on his "substantial assistance" and made no such motion for Ross. Under the present sentencing scheme of mandatory minimums and Sentencing Guidelines, only a government motion certifying that a defendant rendered "substantial assistance" will allow a defendant convicted of trafficking in significant quantities of narcotics to avoid an extremely long sentence. While Blandon greatly assisted the government in the investigation and prosecution of other narcotics traffickers, Ross did not.

Because of the potential for allegations of prosecutorial bias or misconduct in the realm of downward departures, however, many U.S. Attorneys' offices have formed committees to review decisions on whether to file motions for downward departures. These committees consider the assistance the defendant has provided, the recommendation of the prosecutor, the recommendation of the investigating agents, and the severity of the defendant's crime. The committee compares those factors to the circumstances of other similarly situated defendants. The advantage of the committees is that the power to determine whether motions for downward departures should be made is taken out of the hands of one prosecutor, and there is a greater likelihood of comparable treatment given to defendants who are in comparable circumstances. Although the end result may well be the same, the appearance of fairness to the public is increased by a committee review of an individual prosecutor's recommendations. Because prosecutors and agents often meet to debrief defendants numerous times and can work with them extensively, relationships -- both good and bad -- can form. While these relationships may not influence decisions in sentencing recommendations, the oversight of a committee provides some assurance that they do not do so. While we do not know if use of a committee would have changed the result in the Ross or Blandon cases, we believe that U.S. Attorneys' Offices should use committees to review decisions whether or not to file motions for downward departures and the sentencing recommendations that follow, which will result in fairer and more consistent sentencing decisions.

Finally, it should be also noted that there has been much discussion about the substantial difference under the Sentencing Guidelines between sentences for crack cocaine and cocaine in powder form and that this difference has resulted in disproportionately harsh sentences for African-American defendants. However, these issues do not apply in this case, because Ross was sentenced for powder cocaine in all three of his convictions, as was Blandon for his conviction.

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64. With regard to the information the CIA had on Meneses, McNair's declaration attached the CIA's response in 1986 to the request generated by FBI agent Aukland in the Los Angeles OCDETF investigation, discussed previously in the chapter on Meneses. This 1986 cable stated that the CIA had information that Meneses was involved in drug activities in Costa Rica in 1984 and was called "the kingpin of narcotics traffickers in Nicaragua" prior to the fall of Somoza.

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## Chapter VII: Enrique Miranda-Jaime

The San Jose Mercury News found some support for its allegations of Contra drug trafficking and CIA complicity in such trafficking in testimony during Norwin Meneses' 1991 trial in Nicaragua by another defendant in the case, Nicaraguan national Enrique Miranda-Jaime. Miranda's long drug-trafficking career, his complex relationship with the United States government, as well as his unsubstantiated claims of government improprieties will be addressed here, roughly in chronological order.

### A. Background

According to DEA's database, Enrique Miranda-Jaime is an accountant who has lived in Managua, Nicaragua as well as in Bogota and Medellin, Colombia. When providing information to DEA agent Jose Delgado in 1996 as a confidential source, Miranda stated that he had once been an intelligence officer with the rank of Major in the Nicaraguan Army, and that, during the Sandinista/Contra War, his job had been to raise money for the Sandinistas by trafficking in narcotics.

Miranda also told Delgado that in 1977, Miranda joined the Frente Sandinista de Liberacion (FSLN) to fight against the government of General Somoza. Until May 1979, he worked to acquire weapons for the Sandinistas, largely from the governments of Panama, Cuba, Venezuela, and Mexico. However, Miranda related, he had become disenchanted with the Sandinistas, thinking the leadership had become dominated by communists. His request to resign from the Sandinista group was denied, and he was sent to Bulgaria and Cuba to study military intelligence. Upon his return to Nicaragua, he was named the head of Sandinista military intelligence operations, and later promoted to Sub-Commandante, charged with evaluating the Nicaraguan troops. In 1980, the Sandinista command put Miranda in charge of operations for a new special operations unit (the Buro de Operaciones Especiales or "BOE"). In that capacity, he procured weapons and arranged logistical assistance for guerilla movements throughout Latin America, including the FMLN in El Salvador and guerrillas in Guatemala. According to Miranda, he coordinated weapons procurement through the Cuban government, and delivered large sums of money to officials at the highest levels of government in Mexico and Panama to pay for their assistance to guerilla movements.

As will be discussed below, Miranda was arrested with Meneses on drug charges by Nicaraguan authorities in November 1991 and sentenced to 14 years in prison in August 1992. In November 1995, Miranda failed to return from a furlough from his Nicaraguan prison and fled to Miami. There, he became a DEA informant until he was arrested by the INS in December 1995 for being in the country illegally, and voluntarily agreed to return to Nicaragua. Back in Nicaragua, Miranda was returned to prison.

### B. Miranda's Drug Trafficking for the Sandinistas

Miranda told DEA SA Delgado in 1996 during debriefings that from 1982 until the United States

economic blockade on Nicaragua in 1985, the Sandinista government directed Miranda to participate in the smuggling of cocaine into the United States. Miranda said that after flying out of Colombia from clandestine airstrips, cocaine-laden planes would refuel in Panama, then land at BOE airstrips in Nicaragua. There, the cocaine would be off-loaded and replaced with weapons, for the return trip to Colombia. In this debriefing, Miranda did not explain how the cocaine was transported from Nicaragua to the United States.

When interviewed by OIG investigators in 1997, Miranda recalled that, in 1981, the Sandinistas had told him to recruit Norwin Meneses Cantarero for the Sandinista drug operation, but Meneses had refused to help because he was already trafficking for the Contras (see section D below). Miranda was then asked to take over the Sandinista drug operation, and did so from 1981 to 1985, sometimes getting advice from Meneses. As in his DEA interview, Miranda told how cocaine from the Medellin cartel was exchanged for weapons in Nicaragua, but he also related that the drugs were then taken from Nicaragua to Miami by plane and boat, with the profits returning to the Sandinista government.

When OIG investigators interviewed Norwin Meneses, he agreed with several points in Miranda's account. According to Meneses, Miranda told him that the Sandinistas had smuggled up to 200 kilos of cocaine at a time in refrigerated meat containers shipped from Nicaragua to Miami. According to Meneses, Miranda had noted that his contact in Nicaragua was a Cuban, and that the organization had been infiltrated by the Cuban government. After a disagreement with his superior, Miranda had denounced the drug operation to the U.S. Ambassador in Panama in 1985. Meneses denied that Miranda ever asked him to sell drugs.

The OIG did not conduct a full scale investigation concerning Miranda's allegations about Sandinista drug trafficking, because those allegations were outside the scope of our review. During the last decade, however, there have been many allegations of Sandinista drug trafficking. It appears from these reports that, at a minimum, Nicaragua was a cocaine trafficking transshipment point from Colombia to the United States during the period of Sandinista rule.

### **C. Miranda's First Contact with United States Government**

In his 1996 DEA debriefing, Miranda stated that in 1985, soon after being transferred from the BOE to regular military duties, he resigned from the army. He then made contact with the CIA in Nicaragua, where he was extensively interviewed. According to Miranda, for about eight months, he was paid approximately \$3,500 a month for his expenses and for the information he provided. Miranda said that when he refused, out of fear for his family, to go to Washington, D.C. to declare in a public forum all that he had told the CIA officers about the Sandinistas, the CIA terminated its relationship with him. Upon Miranda's return to Nicaragua in September 1985, he was arrested by Sandinista security forces, charged with treason, interrogated over a period of three months in inhumane conditions, and incarcerated until 1989. Miranda said he was released from prison in 1989 for health reasons, returned to civilian life and began selling and buying vehicles.



Miranda told the OIG a substantially similar story, although he identified different persons from the CIA with whom he dealt. Miranda stated that, when he refused to go to the United States and give a press conference saying that the Nicaraguans had MIG-23 planes, when in fact they had only Soviet helicopters, the CIA accused him of being a double agent. This accusation, according to Miranda, had led FBI agents to target him when he had visited the United States in September 1985.

In August 1985, the CIA received information that Miranda was in Los Angeles and wanted to provide information on Sandinista arms and drug smuggling in return for assistance in settling in the United States. Because the CIA believed Miranda was in the United States as a Sandinista agent sent to penetrate Contra groups in the United States, the CIA informed the FBI and INS that Miranda was in the country illegally. We located no FBI or INS records concerning this contact. But according to CIA records, Miranda then fled the United States to Costa Rica.

In September 1985, Miranda was jailed by the Sandinistas for treason. According to CIA information, Miranda escaped from a Nicaraguan prison in 1987.

## **D. Allegations of Contra Drug Trafficking**

### **1. Miranda's Version**

In the 1991 trial in Nicaragua that followed the arrest of Miranda, Meneses, and others in connection with the seizure of 764 kilograms of cocaine and one kilogram of Colombian heroin bound from Managua to the United States (see Chapter III above), Miranda testified that Meneses had financed the Contras with cocaine proceeds, and that Colombians had used the Salvadoran Air Force to land Meneses' cocaine shipments at a Texas Air Force base. The San Jose Mercury News reported Miranda's testimony as corroboration for the allegations raised in the "Dark Alliance" series.

OIG investigators interviewed Miranda in the presence of his attorney, in a Granada, Nicaragua, prison where Miranda was serving his prison sentence. He stated that in 1981 his Sandinista superior, Bayardo Arce Castana (Arce), whose lover, Blanca Castana (a niece of Meneses) had given Meneses' name and telephone number in San Francisco to Miranda. Arce told Miranda to see if Meneses would use his drug network in the United States to sell drugs for the Sandinista government. According to Miranda, when he proposed this plan to Meneses in San Francisco, however, Meneses had refused, explaining that he was already selling drugs for the Contras, with the support of the CIA. Meneses said he was working with Oliver North, that Adolfo Calero and Enrique Bermudez were aware of this arrangement, and that some of the drug profits were going to buy weapons and supplies for the Contras on the United States black market.

Miranda said that at either this or later encounters, Meneses told Miranda he got his drugs from the Medellin cartel through brothers Fabio and Jorge Ochoa. According to Miranda's account of what Meneses told him, Colombian planes would land in Costa Rica with cocaine, which would then be transferred to other planes that had brought in weapons for Nicaraguan Contras. Those planes would fly

to the United States and land in Fort Worth, Texas, where Meneses would pick up the cocaine and arrange for its transport to California. There, Meneses would supply Danilo Blandon and Julio Zavala.

Miranda also reported that Meneses had never told of working with the DEA, but said only that he was working with the CIA arranging flights that carried guns, and that he worked for the Contras with the support of the CIA. In September 1985, according to Miranda, Meneses told Miranda that he stopped selling drugs for the Contras. Miranda said that, at this time, Meneses seemed to be keeping drug profits for himself instead of buying weapons and supplies for the Contras. Meneses also reportedly told Miranda that he would be moving to Costa Rica because the FBI was looking at him. Meneses did not say how he knew this. Miranda assumed that Meneses had good law enforcement contacts.

Miranda told the OIG that his knowledge of all these matters was based only on what Meneses had told him. At one point during the interview, he said he had witnessed some of Meneses' operations but, when pressed, was unable to give even the barest details.

Miranda told the OIG that he had also heard about Contra drug trafficking from pilot Marcos Aguado, who claimed he had used Salvadoran military planes to fly Contra drugs from the Ilopango military air base in El Salvador to a military airport in Texas. Miranda said Aguado frequently talked about how he flew to Colombia with weapons and returned with cocaine to Ilopango. Aguado told Miranda that American planes would then come to El Salvador with weapons and return to the United States with drugs.

## **2. Documentary Evidence**

The OIG was informed by representatives of the American Embassy in Managua that the Nicaraguan courts do not routinely record or transcribe courtroom testimony. Therefore, details of Miranda's allegations regarding CIA involvement in drug trafficking are limited to Miranda's accounts to the OIG.

While incarcerated in Nicaragua's Granada prison Miranda was interviewed by Congresswoman Maxine Waters. The interview was tape recorded and a transcript of the interview was provided to the OIG by journalist Georg Hodel, who was present during the interview.

During that interview, Miranda asked Representative Waters to arrange for him to testify if his information were of any use to her investigation, and asked whether he would be able to collect his documents, handwritings, and tapes that he had left in Miami (after his arrest in 1995), which had been returned to his wife by the FBI. When asked by Representative Waters if the materials showed a direct link between himself, Meneses, and the CIA, Miranda replied:

I have no tapes that would clearly evidence the relationship Norwin Meneses had with the CIA. But there are a number of documents that support suggestions that there was a direct link. Personal notes I wrote on a number of opportunities while working with Norwin Meneses and a copy of a letter Norwin Meneses sent to his wife with personal instructions for her to contact two individuals that worked for the

CIA at the U.S. Embassy in Managua, urging to intervene on his behalf.

Miranda elaborated later in the interview that Meneses had written a letter soon after his arrest in Nicaragua, asking his wife to seek help from two CIA agents at the U.S. Embassy in Managua. During the interview, Hodel stated that a police officer he knows has the letter but that it would be difficult to retrieve. As we discuss later in this section, we found no such letter among the contents of Miranda's papers and documents, which we received from the DEA.

### **3. OIG Conclusions as to Miranda's Credibility**

Whether viewed alone or in the context of other people's accounts (as discussed earlier in this section), Miranda's allegations regarding Meneses' drug trafficking activities with the Contras and CIA involvement lack substantial force. Everything he has said is at least second-hand, mostly from Meneses. Moreover, Miranda could not provide the names of anyone who had allegedly witnessed his conversations with Meneses. Miranda claimed that Meneses invited him to watch Meneses' drug smuggling operation at the airbase in Texas, but, when pressed for details by OIG investigators, Miranda said he had not actually seen it occur. It was also clear that much of what Miranda told the OIG had been previously printed in the newspapers. No one has been able to produce a copy of the letter that Miranda claims Meneses wrote to the CIA, which, according to Miranda, was written six full years after Miranda says Meneses had stopped trafficking for the Contras. It is similarly noteworthy that Miranda never raised his allegations about Contra trafficking when interviewed by the DEA in 1996, although he did speak of his involvement in Sandinista trafficking. Miranda told the OIG that he had reported to the DEA Aguado's travel to the United States, but said nothing about military planes being used to transport drugs. The failure to report such important information in 1996 makes it difficult to credit Miranda's account in 1997.

### **E. Miranda's 1991 Arrest**

As discussed above, after his arrest for treason in Nicaragua in September 1985, Miranda was incarcerated until his release in 1989 for health reasons. Miranda told the OIG that he then returned to civilian life and began selling and buying vehicles. When interviewed by the OIG, Meneses said that, when he had returned to Nicaragua in 1991, Miranda had told him that he had been expelled from the Nicaraguan army and was now the enemy of the Sandinistas. Meneses gave Miranda a job buying construction materials.

However, as discussed in Chapter III, above, numerous reports filed by federal law enforcement agencies indicate that Meneses was actively trafficking in cocaine in 1991. In 1990, the Mexican police seized a shipment of approximately 42 kilograms of cocaine from Managua. Miranda was implicated in the shipment, and the Nicaraguan police launched an investigation that led to him, Meneses, and three Colombians.

In July 1991, a DEA confidential informant was introduced to Miranda. While agents from the Houston

and Los Angeles Field Divisions and the Guatemala City Country Office of the DEA monitored his activities, the informant spent the next five months arranging with Miranda and Meneses for large amounts of cocaine to be shipped from Managua to the United States. This investigation was not coordinated with that of the Nicaraguan police, and was closed after the Nicaraguan arrests.

In November 1991, the Nicaraguan police arrested Meneses and Miranda in connection with a conspiracy to smuggle more than 764 kilograms of cocaine into southern California inside cars equipped with secret compartments. Seized in that arrest by Nicaraguan authorities were weapons, vehicles, \$6,500, and one kilogram of heroin. Miranda was charged with cocaine trafficking and possession.

During the Nicaraguan trial Miranda provided testimony, including the statements that have given rise to the allegations addressed in this report. Miranda was found guilty and sentenced to fourteen years in prison in August 1992.

## **F. Miranda Escapes From Prison and Obtains a Visa**

The San Jose Mercury News article "U.S. Gave Visa to Nicaraguan Drug Trafficker Fugitive: Man Who Was Linked To U.S. Cocaine Ring Had Fled Prison," which appeared on December 31, 1996, reported that Miranda escaped from a Nicaraguan prison and obtained a 10 year visa to live in the United States. The OIG investigation into this matter confirmed that Miranda did indeed fail to return to prison in Nicaragua from a furlough and came to the United States.

According to Nicaraguan police records, Miranda escaped from Nicaragua's Granada National prison in November 1995. Nicaragua National Police (NNA) Sub-Director Eduardo Cuadra Ferrey explained to the OIG that Miranda had received the normal gradual increase of liberties by working in a carpentry shop. He began receiving medical passes to visit an oncologist in Granada, and he also visited his family, always returning to the prison within the allotted 72 hours. On November 13, after Miranda failed to return on time on one such medical pass, the prison declared him an escapee.

When interviewed by the OIG, Miranda said that, near the end of his sentence, he had gone on leave and had not returned to prison. He then went to the U.S. Consulate and applied to renew his expired B1/B2 visa, which he had received 30 years earlier.

It appears that U.S. Consulate officials were not aware that Miranda had been in prison. Miranda told the OIG that, when filing out the visa application, he had simply left blank the part asking if he had a criminal record. However, the OIG obtained a copy of Miranda's application from the State Department, which showed that Miranda answered in the negative to questions regarding whether he had a criminal history. The application also has a notation that Miranda had claimed to be a writer going to see a publisher in Pennsylvania.

Somehow Miranda obtained a passport from the Nicaraguan authorities when he was out of prison on a pass on July 21, 1995, and then received a B1/B2 nonimmigrant visa on November 13, 1995, from the U.

S. Embassy in Managua. The B1/B2 visa is issued to nonimmigrants who wish to travel to the United States for business and travel. Receiving a B1/B2 visa requires some documentation but is not difficult to obtain. The adjudicating office requires some evidence that the traveler has a residence, is employed, or has some other reason to return to his or her native country. Although a B1/B2 visa allows multiple applications for admission, each visit may not be longer than six months without an approved application for extension, a request for which may be made through the mail. A request for the first six-month extension for a B1/B2 visa is normally granted if the request is received before the traveler is in "overstay" status, and if no derogatory information is found. However, as noted above, Miranda's passport with visa appeared to be valid until May 1996 without applying for a six month extension. But because Miranda made a false statement on the visa application, he was in the United States illegally.

State Department documents also reflect that the visa was issued to Miranda based on the information available to the interviewing officer. Procedures for adjudicating visa applications include a computerized background check to verify some of the information on the visa application and to determine if the applicant had been deemed ineligible for a visa. According to the State Department, on December 8, 1992, Miranda had been entered into their databases as ineligible to receive a United States visa, based on Miranda's Nicaraguan conviction in March 1992 for drug trafficking. However, State Department records also indicate that on the day of Miranda's visa issuance, the primary name check database was not working. When the backup name check database was queried for Miranda's name, it also was not properly working and automatically queried the local Managua database, which indicated no records on Miranda. This computer system failure resulted in the adjudicating officer's issuing Miranda a visa without accessing the Department of State name check system, which would have alerted him that Miranda was ineligible to receive a visa. The Department of State has informed the OIG that subsequent legislation and upgraded equipment and software implemented by the Department of State do not allow a visa to be issued without a proper name check.

Although it has been suggested in the Nicaraguan press that the DEA had some involvement in assisting Miranda to escape and/or enter the United States, we have found no evidence that any government official deliberately assisted Miranda in this regard. And Miranda has denied having received any such assistance.

### **G. Miranda's Entry into the United States and Return to Nicaragua**

After receiving his visa, Miranda first traveled to Costa Rica, and from there flew to Miami, where his family lives. He told the OIG that, upon his arrival, INS agents detained him and, after doing a computer check, asked if he had ever been arrested in Nicaragua on drug charges. He told them that he had, and said he was in Miami to contact the DEA. Although Miranda was told that he would be strip-searched and his luggage would also be searched, he stated that he was later permitted to leave.

The OIG was unable to locate anyone at INS who recalled Miranda's entry into the United States. According to INS officials, if Miranda had admitted to officials at the port of entry that he had once been arrested on drug charges, the INS inspectors would have been alerted that his visa was probably

fraudulently obtained and taken appropriate steps to ensure that he did not enter the United States. According to INS records, no records existed in the databases that INS uses that would have alerted United States officials to Miranda, prior to the date that the DEA reported contact with Miranda in the United States.

Miranda told the OIG that, soon after his arrival in Miami, he approached the DEA with an offer of information regarding narcotics trafficking in Central and South America. He thereafter met with DEA SAs Jose Delgado and Joseph Evans and told them that he had escaped from prison in Nicaragua and showed them newspaper articles about it. Evans said Miranda's background was of interest to the DEA agents, and they asked him to be a confidential informant for them in Colombia. Miranda agreed on the condition that the DEA would provide him protection.

According to our interviews and review of DEA files, the DEA began to use Miranda as an active informant soon after he came to Miami. The DEA sent Miranda to various countries in Central and South America to work on DEA cases there, but his efforts were not successful, partly because his information was old and his ability to infiltrate drug trafficking enterprises had been diminished because of his arrest in Nicaragua.

In 1996, the Nicaraguan police tracked down Miranda to Miami, and asked the United States authorities to return Miranda to Nicaragua. The INS, in coordination with the FBI, arrested Miranda for being in the United States illegally, based on Miranda's fraudulently obtained visa. Miranda elected to return to Nicaragua voluntarily, and was sent back to Nicaragua on December 2, 1996, to finish his prison term there.

Miranda has alleged that he was coerced to return to Nicaragua. He said that he was told that if he did not agree to go voluntarily, his wife and children would also be deported and he would never be allowed to reenter the United States.

We reviewed Miranda's claim that he was coerced into returning to Nicaragua. The INS, DEA, and Nicaraguan authorities deny any coercion, and we found their denials credible. Because these allegations were not central to the issues of Contra drug trafficking that were the focus of our review, we have included the facts about Miranda's use as a DEA informant while a fugitive from Nicaragua, and his eventual return to Nicaragua, in Appendix E of this report.

Upon Miranda's return to Nicaragua, he received a 15-month prison sentence on the escape charge, which was added to the year he had left on his initial sentence. While in a Managua prison, Miranda was visited on December 23, 1996, by DEA SAs Vance Stacy and Glenn Schneider, assigned to the Costa Rica Country Office, who had traveled to Managua to explain the DEA's involvement with Miranda to the NNP. According to Stacy, Miranda described for them how he escaped and obtained the United States visa. Stacy told the OIG that he has had no contact with Miranda since that meeting, and to the best of his knowledge, no DEA agent in his office, or in the Managua office, has had subsequent contact with Miranda.

NNP Sub-Director Cuadra told the OIG that a journalist had been attempting to get Miranda released to "house arrest" because of his poor health. According to a communication from INTERPOL Managua, the Deputy Criminal Prosecutor of Managua requested that Miranda be examined by a doctor. After the doctor had diagnosed Miranda as being in poor health, a local judge ordered Miranda's release on July 4, 1997. This release order was later blocked by Miranda's original sentencing judge, and Miranda remains in prison.

## **H. Conclusions**

In his long career as a major drug trafficker, Miranda has doubtless accumulated substantial information regarding illegal drug operations and traffickers in South, Central and North America. Some of his allegations with respect to the matters that are the subject of this investigation have been corroborated, but the majority of his claims, particularly the allegations regarding Norwin Meneses' connections to the Contras and the CIA, could not be corroborated.

Miranda has admitted that he had no direct knowledge of, or ever witnessed, any of the events on which he based his allegations. He also admitted that he has no evidence to support his claimed direct link between himself, Meneses, and the CIA. He claimed that he has documents that "support suggestions that there was a link." Even those documents have not been produced.

However, Miranda's background and reputation do not bolster the credibility of his claims. Miranda was at one time suspected by the CIA of being a double agent and is a convicted major drug trafficker. Each law enforcement officer interviewed by the OIG shared the same opinion of Miranda: he has provocative information, has made intriguing proposals, but he was never able successfully to follow through. Asked to assess Miranda's credibility, NNP Sub-Director Cuadra said that Miranda was creating stories, with much detail but without any supporting evidence, hoping that the attention to his claims will help him return to the United States to be reunited with his family.

Miranda's attempts to bring attention to his plight in prison have been quite successful. His claims of knowledge of Contra and CIA involvement in drug trafficking to the United States were printed in newspapers in Central and North America.

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## Chapter VIII: Julio Zavala

Media accounts have suggested that the return of \$36,000 in seized funds by the San Francisco United States Attorney's Office to Julio Zavala in 1984, just prior to his cocaine trafficking conviction, was troubling and suspicious. This matter was the subject of both media and Congressional scrutiny in 1986, but investigators for the Senate Foreign Relations Committee's 1988 Subcommittee told the OIG that they had never been able to gain access to DOJ records, and could not come to any firm conclusions about why the money was returned. The San Jose Mercury News "Dark Alliance" articles raised the subject again, reporting that "the United States Attorney in San Francisco, Joseph Russoniello, had given \$36,000 back to a Nicaraguan cocaine dealer arrested by the FBI." The article went on to report: "The money was returned, court records show, after two Contra leaders sent letters to the court swearing that the drug dealer had been given the cash to buy weapons for guerrillas. Russoniello said it was cheaper to give the money back than to disprove the claim."

This section will examine the circumstances surrounding the return of the \$36,000 to Zavala in the "Frogman Case" -- which received its nickname because swimmers were arrested in San Francisco Bay bringing cocaine ashore from a Colombian vessel. We describe in detail the case and the allegations raised in that case by certain individuals concerning cocaine trafficking on behalf of the Contras.

### A. Background to the Frogman Case

#### 1. The Investigation

In January 1982, the FBI's San Francisco division initiated an investigation into the activities of a large-scale narcotics distribution network in the San Francisco (California) Bay area. The investigation, which was conducted jointly by agents from the FBI, DEA, and U.S. Customs Service (USCS), became the first Organized Crime and Drug Enforcement Task Force (OCDETF) case in the country. FBI Special Agent (SA) David E. Alba was the case agent. Assistant U.S. Attorney for the Northern District of California James Lassart oversaw the investigative portion of the case, and Assistant U.S. Attorney Mark Zanides handled the eventual criminal prosecutions of the defendants. The investigation, which included a six month court-authorized wiretap, resulted in the arrest and conviction of over 50 subjects and the seizure of approximately 555 pounds of cocaine, fourteen vehicles, approximately \$300,000 in United States currency, and approximately \$100,000 worth of jewelry. Among the defendants arrested were Nicaraguans Julio Cesar Zavala-Moreno and Carlos Augusto Cabezas-Ramirez. The primary drug seizure in the case occurred on January 17, 1983 when twelve persons, some of whom were dressed in wet suits, were arrested while attempting to unload 430 pounds of cocaine from a Colombian freighter in San Francisco Bay.

#### 2. The Arrest of Zavala and Seizure of \$36,000

After the frogmen were arrested, OCDETF agents obtained indictments and arrest warrants for twenty-



two other defendants in the cocaine smuggling ring. Julio Zavala was one of the defendants arrested on February 15, 1983 pursuant to those arrest warrants. Zavala was arrested at his own residence in South San Francisco along with two other people.<sup>(65)</sup> The execution of a search warrant by OCDETF case agents at Zavala's residence resulted in the seizure of numerous items, including approximately 364 grams of cocaine, two weapons, and \$36,020 in United States currency from Zavala's bedroom. The seized money, along with the other seized items, was maintained in the custody of federal authorities pending trial.

In an interview with the OIG on April 8, 1997, Zavala claimed that agents had actually seized \$65,000 from his bedside table -- \$45,000 in Contra money and \$20,000 of his own -- but reported seizing only \$36,020. Zavala never filed any formal complaint about the alleged missing money, but claimed to have reported the discrepancy to his attorney, Judd C. Iversen. In his interview with the OIG, Iversen was unable to recall Zavala's ever reporting the alleged shortage to him.

### **3. Disposition of Charges Against Zavala**

Following his arrest, Zavala was indicted in San Francisco federal court on various narcotics trafficking charges, including a charge under the Continuing Criminal Enterprise (CCE) statute. On July 6, 1984, without any agreement with the federal prosecutors, Zavala pled guilty to one count of possession with the intent to distribute cocaine. Because this count carried a far smaller penalty than the other counts, the prosecutors decided to go to trial on the remaining charges.<sup>(66)</sup> Zavala contested whether he was guilty on the CCE charge, which carried the most severe penalty -- a mandatory minimum prison term of ten years without parole and a maximum sentence of life imprisonment. On March 29, 1985, after a bench trial with stipulated facts, Zavala was found guilty on five counts of unlawful use of a communications facility and also on the CCE charge. He was sentenced to ten years imprisonment, to be followed by three years of special parole.

## **B. Allegations of Zavala's Connections to the Contras and the CIA**

### **1. First Mention of the Contras in the Zavala Case**

Before both Zavala's plea and his subsequent bench trial, his defense counsel, Judd Iversen, filed several motions on Zavala's behalf. On May 2, 1983, Iversen filed a motion to reduce Zavala's bail, along with several attachments. Included as attachments to the motion were a declaration by Zavala and a February 20, 1983 article from the Nicaraguan newspaper La Barricada. In his declaration, Zavala stated that the article depicted him as a "somocista" (Somoza supporter) who had used drug trafficking to support counter-revolutionary (Contra) activities in Nicaragua. Zavala claimed that because of the articles, he was unable to return to Nicaragua or Costa Rica without endangering his life and the lives of his wife and her family.

### **2. Defense Motion to Conduct Depositions in Costa Rica**

On June 4, 1984, Iversen filed, under seal, another pre-trial motion, with supporting materials, requesting leave to conduct depositions in San Jose, Costa Rica. In these materials, which included his own declaration entitled "Declaration of Judd C. Iversen in Support of Motion for Order Granting Leave to Take Depositions," Iversen made two basic claims concerning the charges against Zavala: (1) that the money seized from Zavala belonged to the Contras and was not drug trafficking proceeds; and (2) that agents of the United States government were involved in the alleged drug trafficking conspiracy for which Zavala had been arrested. Iversen provided as support for these allegations:

- newspapers reports that the CIA and the United States government were supporting the Contras;
- a newspaper article stating that Zavala was involved in cocaine trafficking to support the Contras;
- letters allegedly from two Contra leaders stating that Zavala was a member of and assistant treasurer in their group, that Zavala was in America "to promote reinstatement of democracy in Nicaragua," and that, for this mission, Zavala had received \$45,000 in cash on the last week of January, 1983, in San Jose, Costa Rica. According to the letters, this was the money seized as alleged drug trafficking profits by the agents who had arrested Zavala;
- Iversen's belief that "the Government of the United States of America has been aiding and supporting the [Conservative Party of Nicaraguans in Exile (PCNE)] to reinstate the democratic system of Nicaragua" and that this support included training, weapons, funding, and assistance in obtaining all of the above;
- Iversen's belief that "agents of the [PCNE] are presently in the United States to raise funds for their cause and their presence and purpose is both known to and aided by agents of the United States of America.";
- Iversen's belief that one of the wiretap conversations, after having been identified as involving an ambassador from Nicaragua, was "minimized" by agents even though it appeared the conversation was drug related;
- Iversen's belief that the CIA engaged in drug trafficking during the Vietnam war as a means to fund covert operations.

Iversen concluded from this information that:

[A]gents of the United States government were intricately involved in the alleged conspiracy and either sanctioned the use of cocaine trafficking to raise funds for Contra revolutionary activity and/or entrapped [Zavala] into participating under the belief that such activity was sanctioned.

### **3. Authenticity of Aviles and Rappaccioli Documents**

Iversen attached to his motion Spanish and English versions of documents allegedly written by Vicente Rappaccioli Marquis, General Treasurer of the PCNE, and Francisco Aviles-Saenz, Political Secretary of the PCNE.

The first document was an unsigned "Recibo Por \$45.000" (Receipt for \$45,000) on PCNE letterhead paper, which stated that Zavala had received \$45,000 cash from the PCNE in San Jose on January 24, 1983. Zavala's name was typed at the bottom. There were no signatures or other identifying marks.

The second document was an undated, single paragraph memorandum typed on PCNE letterhead paper and entitled "Tesoreria" (Treasury). The document, signed only by Rappaccioli, stated that Zavala had been named "Assistant to the General Treasury [sic] of the Conservative Party," and that he was "authorized to collect [money] within the United States for the liberalization [sic] of Nicaragua from International Communism."

The third document, also an undated, typewritten statement on PCNE letterhead, was signed by both Aviles and Rappaccioli, and said that Zavala was a member and Assistant Treasurer of the "Conservative party" -- apparently a reference to the PCNE. The document further stated that Zavala was in America to promote the reinstatement of democracy in Nicaragua, "for which mission he received forty five thousand dollars in cash on the last week of January, 1983 in San Jose, Costa Rica." The document stated that United States government's retention of the money was harming the Contra effort.

The fourth document, signed only by Aviles, was also an undated, typewritten single-page letter on letterhead from La Union Democratica Nicaraguense, Fuerzas Armadas Revolucionarias de Nicaragua (the Nicaraguan Democratic Union, Revolutionary Armed Forces of Nicaragua) (UDN-FARN). The letter stated that Zavala was a member of UDN-FARN who had made several trips to Costa Rica "before the last week of January 1983," and that, on his last trip "the amount of forty-five thousand dollars in cash was given to him for purchases characteristic to this organization."

It is interesting to note that the document signed by both Aviles and Rappaccioli, which is on PCNE letterhead, and the letter signed only by Aviles, which is on UDN-FARN letterhead, each states that Zavala had been provided with \$45,000 -- presumably by the organization upon whose letterhead the document was written. Despite what the documentation indicates, Zavala only claimed to have received a total of \$45,000 from the Contras.

With the exception of Rappaccioli, who is deceased, the OIG interviewed all those persons who appear to have had some involvement with the writing, procurement, or submission to the court of these documents. Each gave the OIG a different story.

Francisco Aviles-Saenz (Aviles) is a Nicaraguan attorney who fled Nicaragua for Costa Rica in 1981 because "he was accused of being a right-wing terrorist with intentions of blowing up an oil refinery."

Aviles was Political Secretary of the PCNE and Secretary of International Relations for the UDN-FARN. Aviles wrote or signed several of the documents at issue. We interviewed Aviles twice. In both interviews, Aviles admitted that he had provided several documents concerning the seized money to Zavala or Doris Salomon (Zavala's wife).<sup>(67)</sup> In the first interview, however, after reviewing the documents that had been presented in court, Aviles asserted that these documents had been altered. He denied having written any document stating that Zavala had been given money by the Contras; he claimed that the documents he wrote said only that Zavala was a member of the party who was authorized to raise funds for the Contras and that the money which was seized had been raised by Zavala. When interviewed again, Aviles conceded that, though he still recalled having written only that the money had been raised by Zavala, his recollection was "fuzzy," and it was possible that the documents had not been altered. Aviles noted that he had written the letters in part to help Doris Salomon, Zavala's wife, who had asked him to write them. He added that he had not known that Zavala was involved with drugs at the time he wrote the letters.

Zavala told the OIG that he had nothing to do with obtaining the documents from Rappaccioli and Aviles. Zavala claimed that, after his arrest, he had contacted his wife, Doris Salomon, in Costa Rica and asked her to inform Aviles that the money had been seized by the federal government. Zavala claimed that Salomon had arranged for Aviles to submit the documents. Zavala did not know who Rappaccioli was, but thought a second document from another member of the organization had been submitted. (We discuss his claims, and other people's claims, about the source of the money in section G of this Chapter.)

Doris Salomon told the OIG that she knew of only one document concerning the seized money which had been provided for Zavala. She recalled speaking to Aviles, at Zavala's request, about a letter requesting the return of the money. She believed that the letter signed by both Aviles and Rappaccioli was the document she requested. Salomon denied having altered, changed or forged any of the documents submitted with Iversen's declaration, and denied having any knowledge of, or involvement in, anyone else having done so.

Judd Iversen told the OIG that he had no personal knowledge of the circumstances surrounding the creation of any of the documents submitted with his motion. He believed that Salomon had arranged for them. Iversen's understanding was that the money seized from Zavala had been sent to San Francisco by the Contras to use for raising funds. He had no reason to believe that it was to be used to purchase any type of war gear. Iversen recalled thinking that it was strange for the Contras to be sending money to the United States, but that Zavala was fairly credible about the matter and at least followed through in getting the affidavits, which is more than most of his clients did.

The DOJ OIG and CIA OIG jointly attempted to obtain the originals of the documents, which should have been filed with the court along with Iversen's motion, intending to have them analyzed by a document examiner. Unfortunately, only one of the documents filed with the court, the one signed by Aviles alone, was an original -- the others were photocopies. The DOJ OIG suggested that a document analyst from the Immigration and Naturalization Service (INS) Crime Laboratory review the original document; he found no evidence of alteration.

Based on the conflicting information provided by all those interviewed, we are unable to reach a definitive conclusion as to exactly how the documents from Aviles and Rappaccioli were obtained for inclusion in the motion. It seems clear, based on Aviles' statements and the INS Laboratory's report, that at least the document signed only by Aviles is genuine in its present form, and that Aviles provided the document to someone for use on behalf of Zavala.

#### **4. Ruling on Defense Motion**

On June 12, 1984, Chief Judge Robert F. Peckham held an ex parte hearing to consider Zavala's motion to take depositions in Costa Rica. Iversen said he needed to depose two people in Costa Rica for two separate reasons. The first reason was to establish the purpose of Zavala's trips to Costa Rica and the source of the money that was seized from him. Iversen maintained that many of Zavala's trips "had to do with his relationship with a Nicaraguan Democratic Union," and that the money belonged to that Contra organization. The second reason was Iversen's hope to find evidence of the connection between the United States government's support of the Contras and the drug trafficking activities of the Contras, if such a link existed. Such evidence would be relevant, Iversen believed, to an "outrageous government conduct defense."

Judge Peckham asked Iversen what evidence existed to prove the involvement of the CIA or another U. S. agency or official in drug trafficking. Iversen explained that he believed one of the government informants in the case, and the informant's son, had been heavily involved in the activities of the conspiracy, but had not been arrested. Additionally, Iversen stated that he believed the informant had significant political involvement in the revolution in Nicaragua.

Judge Peckham ruled that there was no basis for allowing the depositions in order to develop the "outrageous government conduct defense," but he granted the motion to take depositions in Costa Rica to allow Iversen to develop evidence as to the source of the money.

#### **5. Allegations in Declaration Regarding CIA**

When interviewed by the OIG, Iversen explained that the allegations in his declaration about CIA involvement in drug dealing were taken from a newspaper article. Iversen could not recall when, or in which paper, the article had appeared. Iversen stated that Zavala had mentioned CIA involvement in drug dealing to Iversen, but Zavala had no specific information about that topic. Iversen said that the newspaper article gave him a good faith basis to make allegations in the affidavit and then try to find evidence in Costa Rica to support them.

Zavala told the OIG that he did not know why his lawyer had made allegations in the affidavit about the CIA's involvement in drug dealing with the Contras. Zavala acknowledged that his attorney had been acting on his orders, but said he had only heard rumors about such CIA activities and had no facts to support the claim. Zavala stated that he also did not know why his attorney had alleged that the identity of the Costa Rican witnesses could not be revealed because of fear of CIA retaliation against them.

A memorandum written by Assistant U.S. Attorney Mark Zanides, dated August 6, 1984, documented a telephone conversation he had with Marvin Cahn on August 3, 1984. Cahn was one of Zavala's defense attorneys and Iversen's partner. According to the memorandum, Cahn told Zanides that the main reason for going to Costa Rica was to obtain information regarding the source of the money, but that the defense also wanted to gather materials to impeach one of the government's witnesses at trial. Cahn told Zanides that the defense believed that the person the defense suspected of being a government informant in the case was working for the Sandinista government buying AR-15 rifles and hand grenades, and was also involved in cocaine and weapons trafficking.<sup>(68)</sup>

At bottom, the allegations of United States government involvement in the drug trafficking of Zavala were clearly a defense tactic and were not based on any credible evidence. Iversen himself described the allegations of outrageous government misconduct as the "theatrical" aspect of the case.

## **6. Preparations to Take the Depositions in Costa Rica**

Upon being notified of Judge Peckham's order granting the motion to take depositions in Costa Rica, Assistant U.S. Attorney Zanides took a number of steps to initiate the process. On July 25, 1984, after obtaining the approval of United States Attorney Joseph P. Russoniello, Zanides submitted an official request for approval of the travel to the Department of Justice's Executive Office of United States Attorneys. On July 26, 1984, Zanides applied to the State Department Passport Office for an official government passport. The FBI San Francisco office notified FBI Headquarters of the proposed travel by Zanides and FBI Special Agent David Alba to Costa Rica, with a request that the "logical individuals/agencies" be notified. Depositions of Aviles and Rappaccioli were scheduled in Costa Rica for August 16, 1984.

## **7. Unsealing of Defense Motion**

In his August 6, 1984, memorandum documenting his telephone conversation with Marvin Cahn, Zanides reported having told Cahn that "Washington was having fits with the money situation with regard to the trip to Costa Rica." The memorandum stated:

I then asked him what it was they really wanted from the depositions and if an explanation of the source of the money was the only thing that we were really after. Cahn said that [he] thought that the money was the major thing. I then suggested that if that were true, would it be necessary to go to Costa Rica if I decided to forget the money. Cahn said that he thought that that would be okay, but that he would have to talk to Judd Iversen and get back to me on Monday.

On August 7, 1984, the U.S. Attorney's Office filed a motion with the court to obtain access to the sealed papers that Iversen had filed in support of his deposition request. On August 8, 1984, the court held a hearing on this motion, and the Court granted the prosecutor's request, ordering the documents to

be unsealed. That same day, the U.S. Attorney's Office rejected a settlement proposed by the defense that would have returned the money to Aviles. On August 9, after having reviewed the documents, the U. S. Attorney's Office moved to have the documents resealed. Because of this request, the court vacated its order of the previous day unsealing the submissions, and the documents were resealed. On August 28, the Court entered the order ruling that the documents Iversen filed in support of his motion to take depositions be placed under seal until further notice.

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65. Review of FBI and U.S. Attorney's Office records revealed that one of these other persons was not prosecuted in this case. We asked the case agent, David Alba, and OCDETF Chief James Lassart why the person was not prosecuted. Both men told us that to the best of their recollections, the person had never been a subject of investigation in the case, nor had he been involved at all in the drug trafficking enterprise. Both Lassart and Alba opined that the person had probably "just happened to be" at Zavala's house when the arrest and search warrants were executed, and that he had gotten "swept up" in the process.

66. Despite heavy pressure from the court to drop the additional charges against Zavala and proceed with sentencing based on his original plea (because of the additional cost to the government that a trial would entail), the U.S. Attorney's Office nevertheless proceeded to trial on the remaining charges.

67. Zavala has been married twice. Prior to the initiation of the Frogman case, he was married to Maritza Cabezas, sister of Zavala's co-defendant Carlos Cabezas. In January 1981, Zavala married his current wife, Doris Salomon.

68. Iversen told the OIG that Cahn had stated that "someone at the State Department" threatened to confiscate their passports if they attempted to travel to Costa Rica. Cahn told the OIG that this never happened.

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## **C. Allegation that the Return of the Seized Money to Zavala Was Caused by Intervention from the CIA**

### **1. CIA Documents**

CIA documents we reviewed indicate that the notification of the proposed travel to Costa Rica to depose Aviles and Rappaccioli was brought to the attention of the CIA Station in Costa Rica by the State Department. In a cable dated July 30, 1984, the CIA Costa Rica Station alerted CIA Headquarters that an AUSA for the Northern District of California and an FBI agent had requested permission to travel to Costa Rica to interview two "anti-Sandinistas" in connection with a cocaine case. The cable identified one of the interviewees as Aviles, but referred to Rappaccioli by a code name and indicated the Station's belief that Rappaccioli was a former CIA asset. The Station requested that Headquarters run traces -- searches of CIA records for any mention of an individual -- on both individuals, gather information on Zavala and the case against him, and attempt to discern the connection between the two witnesses and the criminal case. The cable concluded: "Station is concerned that this kind of uncoordinated activity could have serious implications for anti-Sandinista activities in Costa Rica and elsewhere."

As it turns out, the CIA mistakenly believed that the second individual who was going to be deposed, Rappaccioli, was a former CIA asset. Rappaccioli was not an asset, but the CIA Station thought the deposition was scheduled for someone else who was a former CIA asset, not Rappaccioli.

On August 1, 1984, CIA Headquarters informed the Costa Rica Station that Aviles was the Secretary of the Nicaraguan Democratic Conservative Party (PCD) and was involved in the Nicaraguan Committee for the Defense of Democracy in Nicaragua, which was engaging in activities in Costa Rica in support of groups and individuals opposed to the Sandinista regime. The cable stated that CIA Headquarters had no traces on Julio Zavala and had been unable to determine the connection among Zavala, Aviles, and the person the Station believed to be a former CIA asset.

A memorandum dated August 2, 1984, from an employee in CIA Headquarters, who we will call Ms. Jones,<sup>(69)</sup> to the CIA's Central American Task Force reported that the two witnesses were being called as defense witnesses regarding the source of the \$30,000 seized during Zavala's arrest. The memorandum stated that the AUSA was going to meet with someone from the CIA Office of General Counsel (CIA OGC) and Ms. Jones on August 7. It noted: "Once the AUSA has filled us in on the details of the case, we can then determine whether our equities will be affected."

Soon thereafter, CIA Headquarters informed the Costa Rica Station in a cable that the court had ordered the government not to interfere or discourage compliance with the scheduled depositions. The cable stated: "To avoid giving defense a possible issue, suggest no Station contact with [either witness]." The cable explained to the Station that the witnesses were to testify about the source of the money that had been seized from Zavala. It added: "No reason at this juncture to believe that defense is aware of [the person believed to be the former asset] past connection with [the CIA]. FYI. Present schedule for



depositions is 16 August but this may be avoided if planned legal action is successful."

On August 17, 1984, the Costa Rica Station notified CIA Headquarters by cable that the "[U.S.] Consul" had said that the visit by the AUSA had been "cancelled by 'the funny farm.'" The cable further stated that "Consul said it was his understanding this was a reference to CIA." The Station noted that it had no interest in the case and wanted to alert CIA Headquarters so that it could correct any misunderstanding. The cable stated: "Please advise any action taken on this so we may reassure the Consul that [the CIA] had no hand in cancellation of trip."

On August 22, 1984, CIA OGC Attorney Lee Strickland forwarded a draft cable to Ms. Jones discussing the Zavala matter. He wrote in the forwarding document that while certain of the sections in the draft cable were

rather strong, I believe the station must be made aware of the potential for disaster. While the allegations might be entirely false, there are sufficient factual details which would cause certain damage to our image and program in Central America.

On August 24, 1984, a cable virtually identical to Strickland's draft was sent from CIA Headquarters to the Costa Rica Station. The cable stated:

Following discreet approach to senior Department of Justice official, [the CIA OGC] personally contacted the Chief of Criminal Division and Chief of Drug Task Force in U.S. Attorney's Office in San Francisco to ascertain details of the subject prosecution and to avoid inquiry into activities or other [CIA] interests.

\* \* \*

With a general briefing concerning the background of and relationship between [the person believed to be the former CIA asset], Aviles, and [CIA] interests, it was agreed by all that any litigation concerning the currency seizure would be fruitless. In essence the United States Attorney could never disprove the defendant's allegation that [this] was [CIA] money, especially in light of the roles which [the person believed to be a former CIA asset] and Aviles have played in the anti-Sandinista community. Accordingly, at [CIA OGC] request, the U.S. Attorney has agreed to return the money to Zavala and to make no use of it during trial of Zavala on the CCE charge.

It was for this reason that the scheduled depositions in San Jose have been canceled. Notably, [CIA OGC] also learned that both [the person believed to be a former CIA asset] and Aviles were volunteer witnesses for the defendant and planned to testify at their deposition as to the source of the money in question. We can only guess as to what other testimony may have been forthcoming. As matter now stands, [CIA] equities are fully protected, but [CIA OGC] will continue to monitor the prosecution closely so that any

further disclosures or allegations by defendant or his confidants can be deflected.

While this particular aspect was successfully resolved, the possibility of the potential damage to [CIA] interests was not lost on the U.S. Attorney or HQS. By virtue of [the person believed to be a former CIA asset's] relationship as [a former] asset and [member of a Contra support group] in exile, Aviles' role as director of the [Contra support] office in San Jose, and their formal claim of drug-tainted money, case could be made that [CIA] funds are being diverted by [CIA] assets into the drug trade. Indeed, close relationship between Zavala, a convicted drug dealer, and [the person believed to be a former CIA asset] and Aviles could prove most damaging especially if any relationship, no matter how indirect, were to continue. As long as [the person believed to be a former CIA asset] and Aviles continue to play any role in the anti-Sandinista movement, any public disclosure of the foregoing would have as a certain element the fact that they were "linked to" or "assets of" [the CIA].

While the United States Attorney was most deferential to our interests, it was strongly suggested that we take every measure possible to ascertain any involvement by [the person believed to be a former CIA asset] or Aviles in narcotics trade and/or the possibility as to whether [CIA] funds given to [Contra groups] might arguably have been diverted. . . .[\(70\)](#)

On October 30, 1984, Ernest Mayerfield, then counsel to the Directorate of Operations, forwarded to the CIA OGC a weekly report to the Deputy Director for Operations that contained a synopsis of the Frogman case. Mayerfield included a memorandum that stated in part:

This is an item taken from [a] weekly news sheet put out by Stan Sporkin [former General Counsel to the CIA]. This one covers last week's events. I don't know whether you had heard about this case -- I had not. I talked to the lawyer that is handling this case, who tells me that the greymail aspects of this case are quite routine and he has every reason to believe that he can avoid, with the excellent cooperation of the San Francisco prosecutor, any public disclosure of our involvement. I do not think this is a big flap and ought not to be made into one.

## 2. Interviews of CIA Personnel

Retired CIA employee Ms. Jones told the OIG that in 1984 she was assigned to the CIA's Policy Coordination Staff, dealing with criminal and civil litigation that affected the Directorate of Operations. Ms. Jones explained that the primary concern of her office was handling matters concerning CIA assets and "equities" of the CIA's Directorate of Operations (DO). When CIA assets or the equities of the CIA were implicated in a court case, it was the responsibility of her office to: (1) find out if any allegations involving the asset were true; (2) determine who or what the CIA equities were; (3) determine what protection of the CIA's equities was necessary; and (4) contact DOJ or the USAO to discuss potential

courses of action for handling the case.

Ms. Jones had no independent, specific recall of the Zavala case. She was not able to recall specifically with whom she dealt on the Zavala matter, but stated that it would have been an AUSA, a CIA OGC attorney, or a CIA Congressional Affairs person. Ms. Jones said she did recall, however, that she did not travel to San Francisco in conjunction with the Zavala case.

Ms. Jones stated, after reviewing several documents, that the "burning issue" in the case, and the reason that this matter was brought to her attention, was the potential for the allegation that a CIA asset was diverting CIA funds into the drug trade and the risk of bad publicity from any such allegation. She noted that the information would be "explosive" and opined, "What would make better headlines?" She also stated that her office was concerned because there were "sources and methods involved."

When asked if it was unusual for the CIA OGC to ask an AUSA for "a favor," Ms. Jones replied that all intelligence organizations have the same problem with assets that must be protected. She added that when it is determined that an asset needs to be protected, a decision must be made as to how that protection can best be accomplished. Ms. Jones stated that similar discussions occur routinely when intelligence issues are involved.

CIA OGC attorney Lee Strickland confirmed to the OIG that his handwriting appears on a document contained in the CIA OGC Zavala case file, with the name of AUSA Mark Zanides, and his phone number, as well as the names and phone numbers of various hotels and airlines. The document has the name, address and phone numbers of the Chief of the Organized Crime Drug Enforcement Task Force (OCDETF) for San Francisco USAO James Lassart, and the Chief of the Criminal Division for the San Francisco USAO, John Gibbons, typed at the top of the page. Other notes in the file are also in his handwriting. He also confirmed that the document which appears to "close" the CIA OGC matter regarding the proposed depositions in Costa Rica was signed by him.

Despite the existence of these documents, Strickland did not specifically recall having spoken with anyone from Main Justice or the San Francisco United States Attorney's Office, or having traveled to San Francisco to meet with anyone from the United States Attorney's Office regarding this matter. In fact, Strickland did not recall having been involved in the Zavala matter at all, but admitted that it was clear from looking at the case file that he was.

Strickland stated that although he had no distinct recollection of having done so, it "makes sense" that, because a suspected CIA link might have potentially been exposed in the case, someone from the CIA would have gone to San Francisco to discuss the matter with the AUSA. He stated that based on the amount of work his section was doing in late 1984 and the relative "thinness" of the file, what probably happened was that he went to San Francisco, met with an AUSA, and the matter was put to rest. He believed that the CIA document which reported that the money was to be returned was probably the "after action" report.

Strickland stated that the "discreet approach" mentioned in the cable sent to the CIA Station on August 24 was probably a phone call to DAAG Mark Richard to request a meeting with the AUSA in San Francisco. He stated that he assumed from the cable that somebody at least called the OCDETF Chief and the Chief of the Criminal Division in the USAO San Francisco, although he did not remember doing so.

### **3. Interviews of Department of Justice Personnel**

This section recounts the recollections of Department of Justice personnel involved in the decision to return the money to Zavala.

Assistant U.S. Attorney Zanides told the OIG that, when the materials were unsealed and he read the statements of the alleged Contra leaders, he believed it was possible that the persons involved were "government assets." Since no one involved in the case had any information about Aviles or Rappaccioli or what they might say, Zanides felt that the situation had to be handled with "an abundance of caution." Zanides stated that he and, he believed, Russoniello, had decided to ask the court to reseat the documents until "they could sort it all out and figure out what exactly they were dealing with." Zanides said he did not contact the CIA before he sought to have the materials resealed.

Similarly, Russoniello told the OIG that, at some point, a decision was made by his office to seal the filings until the matter "could be sorted out." When asked why he believed it was necessary to seal the records, he explained that, to the best of his recollection, there was a reference to "the cooperation between somebody and the CIA," and that, at that time, the government had a "high sensitivity" to any references to the CIA in any document, and looked upon such references as issues of national security. His office felt compelled to protect the information in accordance with the Classified Information Procedures Act (CIPA) "until they could figure out exactly what they were dealing with."

According to an FBI cable, on August 14, 1984, FBI SA Alba notified the FBI office in Panama that he and Zanides would not be traveling to Costa Rica as scheduled. By then, a tentative decision appears to have been made among the government personnel involved in the case to return the \$36,000.

Although Assistant U.S. Attorney Zanides explained to us that he never considered Zavala's claims about the seized money to be true, he contacted the CIA by telephone to have it run a name check on the parties involved. Zanides told the OIG that he contacted the CIA in case the parties involved were CIA assets and to request any information the CIA was willing to provide regarding either individual Zanides was to depose. Zanides said that some time after Iversen's motion for depositions in June 1984, Zanides was visited in his office by an attorney from the CIA. When interviewed by the DOJ OIG and CIA OIG, Zanides could not recall the attorney's name, but he identified former CIA Office of General Counsel attorney Lee Strickland from an array of photographs put together by the CIA OIG. Zanides recalled that Strickland was reluctant to give his name and his government affiliation when Strickland met with him.

Zanides said that he and Strickland had had a very "opaque conversation," in which Strickland stated

that an "uncomfortable situation" would result if the depositions were taken in Costa Rica and that the CIA would be "immensely grateful" if plans to take the depositions were dropped. Zanides said Strickland was not very specific about any details. Zanides did not infer from his conversation with Strickland that the witnesses in Costa Rica were affiliated with the CIA, but rather, that taking the depositions would create an awkwardness that the CIA did not want. Zanides did not recall exactly what he told Strickland, but recalls generally that he informed Strickland that it was "not his call" as to whether the depositions could be dropped and that Strickland should talk to Zanides' "superiors."

Zanides did not know if Strickland ever met with USA Russoniello, OCDETF Chief Assistant U.S. Attorney Lassart, or Criminal Chief Gibbons. Zanides recalled that Russoniello later told him that Zavala's money was going to be returned, and that the decision was made based on the cost of taking the depositions in Costa Rica. Zanides told the OIG that he had informed Russoniello of his contact with the CIA. Zanides made only very brief, cursory notes about the CIA contact, which he "stuck somewhere in the file." Russoniello told him to "hang on to everything" because the matter could "kick up" again. However, Zanides was unable to locate these notes. He stated that, in retrospect, he probably should have done a lengthy memorandum of his role in this matter. The only record located in the U.S. Attorney's file was a memorandum of a conversation between Zanides and Strickland. According to the memorandum, Strickland reported to Zanides that traces for information on Zavala at the CIA had all come back negative and Strickland requested a copy of the documents filed under seal by Zavala.

Zanides told the OIG that he had not been concerned about the decision to return the money. He recalled thinking that it would have cost a lot to take the depositions in Costa Rica and that he was very busy. Zanides noted that the government would have had to pay for his travel, the FBI agent's travel, an interpreter, both defense attorneys' travel, and possibly the travel of Deputy U.S. Marshals for protection. He said he would have felt differently about the decision to return the money if it would have jeopardized the criminal case, but the return of the money did not.

The OIG interviewed John Gibbons, the Chief of the Criminal Division in the San Francisco U.S. Attorney's Office in 1984. He told the OIG that, because the "frogman case" was an OCDETF case and not a Criminal Division case, he did not supervise or otherwise monitor the case, and he had no involvement in, and never even knew about, the decision to return the seized money to Zavala. Gibbons stated that he never met with anyone from the CIA about this matter.

Jim Lassart, the OCDETF Chief in 1984, recalled that there was a question in the U.S. Attorney's Office about whether "it was worth" chasing witnesses in Central America in the attempt to have the money forfeited. He believed that, in the end, it was decided that litigating the matter would not be cost effective. Although Lassart was not certain who made the decision, he said that no one could have made it without the participation and concurrence of U.S. Attorney Russoniello. Lassart had no recollection of being involved at all in the dealings surrounding the return of the money. He did not specifically recall discussing the issue with either Russoniello or Zanides, but stated that, had he been involved in the matter, he would have discussed it with both. Lassart did not recall meeting or talking with anyone from the CIA about the matter, or hearing from either Zanides or Russoniello of a meeting with anyone from the CIA. He did not recognize the name Lee Strickland. He noted that any attempt by the CIA to

intervene in a case would have had to be addressed at the very least with Russoniello, and would more likely have been handled at a higher (Main Justice) level.

Former United States Attorney Joseph Russoniello told the OIG that he had been aware that the motion to take depositions in Costa Rica had been filed by Zavala's attorney and that the motion had been both granted and sealed by Judge Peckham. Russoniello did not recall having had any specific meetings with anyone concerning the depositions or the considerations that went into the final decision to return the money. He recalled only that he had not thought it cost effective to go to Costa Rica, and that he had decided that the money should be returned to Zavala. Russoniello said he never was contacted by anyone from the CIA about the seized money, and he had no knowledge of anyone else in his office having been contacted by the CIA. He noted that his 1984 appointment calendar did not contain any annotations recording a meeting with anyone from the CIA during the month of August 1984, although it did show telephone calls from Deputy Assistant Attorney General (DAAG) in the DOJ Criminal Division, Mark Richard, and a reporter, Seth Rosenfeld (who, as discussed below, wrote an article about the Frogman case and Zavala). The subject of these calls was not indicated on Russoniello's calendar, and he did not recall what they discussed or whether he had, in fact, even returned the calls.

The OIG also attempted to determine who, if anyone, in the upper levels of the Justice Department might have been contacted by the CIA regarding the case. As noted above, CIA attorney Lee Strickland and CIA employee Ms. Jones, who often coordinated with DOJ on matters of mutual concern, were both involved in handling the Zavala matter on behalf of the CIA. Both told the OIG that they dealt primarily with Mark Richard in DOJ on these kinds of matters.

Richard told the OIG that he recalled the Zavala case but not the details. Richard did not recall that the issue in the case concerned return of seized money. He also did not recall ever meeting with anyone from the CIA about the matter, or any discussions with the San Francisco U.S. Attorney or anyone else in that office. A review of Richard's files revealed a file on the Zavala matter from the time of the Senate Foreign Relations Subcommittee's 1987 inquiry about the case, but the OIG did not locate any files on this matter from 1984, the time that the decision to return the money was made.

The FBI case agent on the Frogman case, David E. Alba, is currently the FBI Special Agent in Charge of the El Paso office. He told the OIG that he was not involved in the decision to return the seized money to Zavala. Alba did not recall attending any meetings with the CIA, about the Frogman or any other case. He said there may have been a meeting held "behind his back," but Alba stressed that this was "pure speculation" on his part, and he had no actual knowledge if such a meeting took place. Alba heard from one of the prosecutors on the case that some of the seized money was being given back, but he was not given a reason for the return. He had the "impression" that the CIA had "interfered in the return of the \$36,000 to Zavala," and that "Zavala or someone he was working with was involved with the CIA." Alba was not able to provide a factual basis for his "impression" of CIA interference.

#### **4. Interview of Zavala's Defense Counsel**

Zavala's defense counsel, Judd Iversen, stated that he was informed, just prior to the scheduled depositions in Costa Rica, that the seized money would be returned. He said that Russoniello told him that it was not worth it to go to Costa Rica for such "small potatoes." Iversen believed that Russoniello was candid in citing this reason for returning the money because any other motivation would have likely shown up in the criminal case in the way in which the U.S. Attorney's Office handled discovery issues -- either filing motions in limine or raising CIPA issues -- or dismissing the case entirely to protect CIA sources and methods.

## **D. Allegations in 1986 Newspaper Article Regarding the Return of the Money**

### **1. The San Francisco Examiner Article**

On March 16, 1986, the San Francisco Examiner published a front page story by Seth Rosenfeld entitled "Big Bay Area cocaine ring tied to contras," which suggested a "link" between Zavala, Cabezas, and the other defendants in the 1983 Frogman case, and groups associated with the Contra revolution. Rosenfeld began: "A major Bay Area cocaine ring helped to finance the contra rebels in Nicaragua, according to federal court testimony and interviews with the convicted smugglers." He quoted Cabezas as claiming that proceeds from his cocaine trade "belonged to ... the contra-revolution," and Zavala as claiming to have delivered \$500,000, the "majority" of which came from cocaine sales, to the treasury of two Costa Rica-based Contra groups.

Rosenfeld wrote that "the Government returned to Zavala \$36,020 seized as drug money after he submitted letters from Contra leaders saying it was really political money for the reinstatement of democracy in Nicaragua." Although the court files remained sealed on this issue, Rosenfeld described in great detail Zavala's attorney's request to travel to Costa Rica to interview the Contra leaders, the attorney's sealed declaration alleging CIA involvement with the Contras and possible government sanctioning of drug trafficking activities, and information and statements contained in the letters of the Contra leaders. He reported that the very day the records had been unsealed by the court, the San Francisco U.S. Attorney's Office moved for them to be resealed pursuant to the Classified Information Procedures Act (CIPA). Rosenfeld reported that U.S. Attorney Russoniello had refused to answer any questions concerning the classified information, and had claimed the money was returned to Zavala "for economic reasons" because it would have cost the government too much to go to Costa Rica and fight over "nickles and dimes."

### **2. U.S. Attorney Russoniello's letter to the editor**

On March 19, 1986, in response to Rosenfeld's article, U.S. Attorney Russoniello wrote a letter to the editor of the San Francisco Examiner expressing his outrage at the paper's insinuation that his office had played any role in the suggested "link" between a Bay Area cocaine ring and the Nicaraguan Contras. In his letter, Russoniello stated that the paper, through the article, gave readers "the clear impression ... that Julio Zavala had been given preferential treatment by the U.S. Attorney's Office because of his association with the contras and that we covered up the proof of this treatment and the truth of the matter

of his contra connection." Russoniello went on to state that both impressions were wrong and that the paper was "outfitted with enough of the facts to dispel this impression but did not print them, for whatever reason. . ."

Russoniello noted that the only "special treatment" Zavala got was the U.S. Attorney's Office's "best efforts to get him sentenced to fifteen years in prison rather than the ten years the Court imposed." Russoniello also stated that no favors were done for Zavala's wife, Doris Salomon, who had fled the United States to Costa Rica shortly after being convicted on a drug trafficking charge in 1981. At the request of the San Francisco U.S. Attorney's Office, she was extradited back to the United States in 1985, and was subsequently sentenced to, and served, three years in prison. The U.S. Attorney's Office recommended a substantial prison term for Salomon in that case because of Salomon's "lack of contrition and continuing deceitful conduct."

In his letter to the San Francisco Examiner, Russoniello also noted:

We did return \$36,020 to Zavala. It had nothing to do with any claim that the funds came from the contras or belonged to the contras. It had to do with the fact that it would have cost the taxpayers who were expected by the court to pay for all travel by all counsel at least that much to fund the excursion to Costa Rica to take the necessary depositions for the problematical [sic] result we might be permitted to keep the seized funds. It made no economic sense to me to do this.

Russoniello denied that any "higher ups" were involved in the decision to return the money, and he explained that he had the authority to compromise claims up to \$100,000 at that time. Russoniello then concluded:

While \$36,000 may seem like a significant sum and people might disagree with our decision to return it, against the background that the cocaine seized had a value of \$100 million and that we have millions of dollars in property and currency subject to forfeiture in this district at any given time (\$20 million at present) and that little was to be gained from expending valuable agent and attorney time in further quest of what were by comparison "nickels and dimes," the decision was reasonable, justifiable and I make no apology for having made it.

In his letter to the newspaper, Russoniello also addressed the paper's insinuation that his office had covered up an alleged connection between the drug dealers and the Contras by pointing out that most of the information concerning the wiretaps and the trial testimony had been in the public record for at least a year. He explained that the declarations of several people who made claim to the money had been sealed, not because they were true, but because the allegations "related to national security as that term is defined by the Classified Information Procedures Act. We were duty bound, not by fiat but by an Act of Congress, to protect that information from unauthorized disclosure and we did. There is no more to it." Russoniello noted the lack of any evidence to support allegations of CIA involvement with or



connection of the defendants to the Contras and the frequency with which criminal defendants engage in "alibiing." He related that none of the 11,000 intercepted telephone calls reviewed in the Frogman case contained any reference to Contra activity. He then opined that the story constituted "one of the most blatant attempts at contrived news-making we have witnessed in recent years."

Russoniello told the OIG that he believed that he wrote the letter to the editor himself, but stated that he probably consulted with Mark Zanides in drafting it. Zanides told the OIG that he learned of the letter after it had been sent.

## **E. OIG Conclusions Regarding the Return of the Money**

The OIG found conflicting information about the decision to return the money to Zavala. CIA documents state that the money was returned to Zavala, and not used in the trial, at the request of the CIA. In contrast, the former U.S. Attorney and his deputies contend that the money was returned for purely economic reasons and that they had no contact with the CIA. Only AUSA Mark Zanides remembers any contact with the CIA on this matter.

The following facts are clear. The CIA had a belief, albeit a mistaken one, that one of its former assets was about to be deposed in the Zavala case. The CIA decided that it was not in its interest to have the former asset deposed, partly for fear of public disclosure of allegations that CIA-provided money was being diverted into, or that CIA assets were involved in, the drug trade.

It is also clear that there was contact between the CIA and AUSA Mark Zanides. What is not clear is whether Lee Strickland or anyone else from the CIA made contact with Zanides' supervisors or senior DOJ officials. The CIA cable stated that someone from the CIA OGC "personally contacted" the Chief of the Criminal Division and the Chief of the Drug Task Force in the San Francisco USAO. The two men who occupied these positions deny any such contact. The cable also indicates contact with a senior DOJ official. Mark Richard -- the official most likely to have been contacted -- cannot recall any such contact and has no files to indicate his involvement in this issue in 1984. Former CIA OGC attorney Strickland and former CIA employee Ms. Jones cannot resolve this question, since they claimed to have no recollection of this matter.

AUSA Zanides told the OIG that he believed that he would have told his superiors about being contacted by the CIA, but that he cannot specifically recall doing so. The OIG concludes that Zanides likely passed on this information, as it is unlikely that a line assistant would not notify his superiors of contact by an attorney from the CIA. This would be a significant event in any case and one which we believe would have been discussed with the line attorney's supervisors. However, Lassart, Gibbons, and Russoniello all deny having any knowledge that the CIA had contacted Zanides.

Because of failed memories and a failure by the USAO to document events contemporaneously, this matter cannot be fully resolved by the OIG. The CIA clearly believed that it had an interest in preventing the depositions, because of its confusion that one of the witnesses to be deposed was a former asset. The

CIA therefore contacted the U.S. Attorney's Office, and the money was returned. The exact details of how this came about, and whether the reason was because of the cost of the deposition or the CIA's intervention, remain uncertain.

The OIG found it disturbing, however, that the CIA proceeded on such thin information and, because they did not thoroughly research the individuals involved, made a substantial error.

It was also of concern to the OIG that the CIA considered the potential press coverage of a Contra-drug link to be a sufficient reason to attempt to influence the decision to return the money to Zavala. The OIG will leave it to the CIA OIG and to a broader Congressional and public audience to assess the propriety of intervening in this law enforcement matter based, at least partly, on a desire to protect the public image of the Contras or the CIA.

## **F. The Return of the Money**

The San Francisco United States Attorney's Office, defense counsel, and Zavala signed a stipulation in September 1984 providing that the money would be disbursed in the form of a cashier's check in the amount of \$36,800 made payable to Zavala and Aviles. The check was issued on September 27, 1984, and delivered to Iversen on October 2, 1984 for release to Zavala.

### **1. Zavala's Version**

Zavala told the OIG that he was unhappy when he learned that the government's check would be made out to both him and Aviles because it was "his case and everything was supposed to be in his name." Nonetheless, Zavala said his mother-in-law was able to cash the check by herself. Initially in the interview with the OIG, he claimed she had a power of attorney for both him and Aviles, but later indicated that he might have gotten a second check from Zanides, made out to him alone. Zavala said that the FBI had tried to arrest his mother-in-law when she went to cash the check because the FBI mistook her for his wife, who was a fugitive. The matter was later cleared up. Zavala did not remember any specific details about how it was resolved. He said he retained some of the proceeds from the check, and sent some back to the Contras. He could not recall how much of the money went to the Contras, or to whom it had been sent.

### **2. Salomon's Version**

Zavala's wife, Doris Salomon, said she had nothing at all to do with the receipt, transfer, or cashing of the check returning the seized money to Zavala. She recalled hearing from someone that there had been some confusion over how or to whom the check had been made out. She believed that it had to be issued twice. Salomon was not sure of the amount of money involved, but believed that it was about \$40,000. Salomon recalled that the check was cashed by her mother and, because they have the same name and because Salomon was a fugitive from charges in the United States, her mother was mistakenly arrested. Salomon did not know what happened to the money.

### 3. Aviles' Version

Aviles, who is currently employed as a Judicial Advisor and lawyer for the Nicaraguan Ministry of Government in Managua, told the OIG that, in late 1985, a judge from the United States had sent him a check for "about \$30,000" to refund the money which had been seized from Zavala. Aviles stated that the check had been made out in his name, and possibly one other name, but he was not certain. Aviles returned the check to Zavala's wife's mother, along with a power of attorney allowing her to endorse it. Aviles said that he and the other PCNE leaders did not want the money, considering it "blood money" or dirty money, because by then they realized that it was money from drug trafficking. According to Aviles, the PCNE leadership believed they were dealing with some form of mafia or drug cartel and were afraid of what the drug dealers might do. The leadership decided the best way to distance themselves from the situation was to simply return the money to Zavala and have nothing more to do with it. Aviles said that neither he nor Rappaccioli ever received any of the money returned to Zavala.

### 4. Zavala's Mother-in-law's Version

Zavala's mother-in-law, Doris Salomon (whose name is the same as her daughter's), told the OIG in a brief telephone conversation that she had cashed the government check which returned the seized money to Zavala. Mrs. Salomon claimed that she did not recall what exactly had become of the money, and she refused to discuss the issue any further. Mrs. Salomon would not agree to be further interviewed, either in person, or by telephone, because she said it had been too long, her memory was bad, and she had been through too much already relative to the case.

### G. Did the Money Belong to the Contras?

When interviewed by the OIG, Aviles did not admit to having written any documents stating that the money seized from Zavala was Contra money and denied giving Zavala any money. He did admit to having written at least one letter, at the request of Doris Salomon, asserting that the money seized from Zavala had been raised by Zavala to benefit the Contras. Aviles also admitted telling the San Francisco Examiner for a March 16, 1986 article, that he had given Zavala "about \$35,000," but he claimed that the statement was not true. Aviles stated that he made the statement to the paper because he was "scared." He explained that the PCNE leadership had given Zavala the authority to engage in "fundraising" for the group, and only later became aware that Zavala was a drug dealer and had claimed to have given them \$500,000. Aviles said that when he made his statement to the San Francisco Examiner, the PCNE leadership still hoped that, despite Zavala's arrest, Zavala had actually collected some "clean" money for them, and that he was still going to give it to them.

Zavala told the OIG that the seized money was money that had been given to him in Costa Rica in January 1983 by Aviles and the Costa Rican Contras. According to Zavala, Aviles gave him \$45,000 to purchase communications equipment and arms for the Contras. Zavala could not recall exactly what he was supposed to purchase with the \$45,000, or how his purchases would be transported to Costa Rica. Zavala did not declare the \$45,000 when he brought it into the United States. He did not know how the

money had been raised by the Contras, but he did not believe that Aviles and his organization were involved in drug trafficking. Zavala was unsure of the name of the organization with whom Aviles worked, even though, according to the documentation submitted by Zavala's attorney to the court, Zavala himself was supposed to have been a long-standing member of that organization. Zavala first called the organization the Partido Liberal Cristiano (Christian Liberal Party), then later referred to it as the Partido Liberal Catolico (Catholic Liberal Party). Zavala stated that he had no association with the PCNE or UDN-FARN, the two groups Aviles actually worked for. Zavala further stated that he was unsure of who the leaders of these organizations were or where the organizations were based. He said he did not know Vicente Rappaccioli.

Doris Salomon (Zavala's wife) believed the money seized from Zavala was either Contra money or Aviles' money, but only because that is what she had been told by Zavala. She had no direct knowledge of how the money was raised, where it came from, what Zavala and Aviles were going to do with it, or how it was passed between them. She did not recall Zavala telling her that Aviles or anyone else in the Contras gave him any money. She also did not recall Zavala ever claiming that he had procured equipment or weapons for the Contras. She recalled that on one occasion, Zavala did take several large boxes to Costa Rica, which she believed might have been a computer, but she did not know who the boxes were for. According to Salomon, Zavala and Aviles met on several occasions prior to Zavala's arrest, and had dealings with each other, but she was not sure of the nature of those dealings.

Carlos Cabezas, Zavala's co-defendant and former brother-in-law, told the OIG that the money seized from Zavala's bedroom was not Contra money, but the proceeds of a drug transaction. According to Cabezas, the money had been received by Ernesto Linsig-Caballero from a customer, Tom Benson, in a drug transaction the night before the arrest. Linsig, one of Zavala's distributors and also Zavala's housemate, and Benson were both co-defendants in the case. Cabezas opined that Salomon had obtained the letters from Aviles in an attempt to "minimize" Zavala's crimes.

Based upon the available, albeit conflicting, evidence, we believe that either Zavala or persons acting on his behalf fabricated the claim that the seized money belonged to the Contras. Zavala's ignorance about the groups with whom he claimed an affiliation was remarkable. Aviles' account of the submission of the affidavit in the case was plausible, and we do not believe that either Aviles nor the Contras ever received any of the returned money, despite Zavala's claim that some of the money was returned by him to the Contras. We believe that the credible evidence suggests that the claim that the money seized from Zavala belonged to the Contras was no more than a ploy by a drug trafficker to salvage some of his drug profits. The strategy succeeded.

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69. The CIA requested that we not identify this employee.

70. As noted above, the CIA erroneously believed that the former CIA asset was to be deposed, not Rappaccioli.

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## **Chapter IX: Carlos Cabezas**

Although Julio Zavala never claimed that there was any connection between his drug trafficking activities and the Contras, one of his co-defendants in the Frogman case, Carlos Cabezas, made just such a claim. Indeed, Cabezas was the only person the OIG encountered who claimed to have personally engaged in drug trafficking for the benefit of the Contras. Cabezas, who was Zavala's former brother-in-law by virtue of Zavala's first marriage to Cabezas' sister Maritza, cooperated with the government after his arrest in 1983, and eventually testified in the prosecution of Zavala. In 1984, Cabezas pled guilty to conspiracy to import cocaine and importation of cocaine, and was convicted in a stipulated facts trial on a Continuing Criminal Enterprise (CCE) charge. He received a ten-year prison sentence.

### **A. Cabezas' Allegations Concerning the "Contra Cocaine Connection"**

In two separate interviews with OIG investigators, Cabezas discussed his claims that, between December 1981 and December 1982, he and Zavala, as part of an alleged "Contra Cocaine" enterprise, had smuggled cocaine into the United States from Costa Rica and Honduras in baskets woven from cocaine-stuffed reeds, distributed the cocaine in the San Francisco Bay area, and then carried the proceeds back to Central America for the benefit of the Contras.

According to Cabezas, his involvement in the "Contra Cocaine" enterprise began in December 1981, when he traveled to Costa Rica, at Zavala's request, and met with Zavala, Doris Salomon, Horacio Pereira, and Troilo Sanchez in the Balmoral Hotel in San Jose. There, Pereira and Sanchez told him that they were already involved with the Contras, but that they wanted to try to raise more money through drug sales. According to the scheme worked out at this meeting, cocaine from Lima, Peru, was packed into hollow reeds, woven into baskets like the ones carried by travelers or tourists, and then transported to Costa Rica or Honduras for pickup by members of the organization. According to Cabezas, the baskets were then carried to the United States by Fernando Sanchez, the former Nicaraguan Ambassador to Guatemala and brother of Troilo Sanchez, and by several women who worked for Zavala.

Cabezas said that on one occasion, he personally carried one cocaine-filled basket to the United States, although, at the time, he had not known cocaine was inside. Cabezas estimated that each basket held about one kilogram of cocaine and that a total of approximately 25-30 baskets were carried to the United States in about ten trips. Upon arrival in San Francisco, all of the baskets were turned over to Zavala, who Cabezas alleged was in charge of the "Contra Cocaine" operation in the United States. Zavala then distributed the cocaine to his street dealers to sell. Cabezas estimated that they collected \$64,000 for each kilo of cocaine. All the money, according to Cabezas, was turned over to Zavala, who ultimately gave it to Cabezas for delivery back to Sanchez and Pereira.

Cabezas said that, even as Zavala trafficked for the Contras, he also ran a separate trafficking enterprise, also involving Cabezas, with a Colombian supplier. Within several months of the start of the "Contra Cocaine" connection, Zavala began using Contra drug money to pay off his Colombian supplier.

Thereafter, in the spring of 1982, Pereira came to San Francisco and told Zavala to leave the collection and delivery of the "Contra Cocaine" money to Cabezas. Pereira then left, taking about \$80,000, but was arrested in Miami, and the money was seized.

According to Cabezas, after Pereira's visit Zavala stopped associating with the Contras, and the "Contra Cocaine" was sent directly to Cabezas, who continued to use Zavala's distributors to sell it to Zavala's customers. Cabezas estimated that between December 1981 and December 1982, he personally made over twenty trips, carrying between \$1 million and \$1.5 million out of the U.S to Costa Rica or Honduras. Fernando Sanchez and Donald Peralta also carried money from the United States to Costa Rica or Honduras, according to Cabezas. The money was generally delivered to Pereira and Sanchez in Honduras and Costa Rica, but, on two or three occasions, Cabezas carried \$40,000 to \$50,000 to Miami, Florida, where he delivered it to Aristides Sanchez, a brother of Troilo Sanchez and head of the Contra party in Miami. Cabezas stated that he never actually discussed the origin of the money with Aristides, but he opined that Aristides must have known it was drug proceeds. Cabezas said he had never personally spoken with FDN leader Adolfo Calero, but that it was his belief that Calero knew about the drug trafficking. Cabezas could not provide the OIG with any details that supported that belief. Cabezas acknowledged that Calero was never present when Cabezas had met with Sanchez or Pereira.

Cabezas told the OIG that he was certain that the money he delivered to Sanchez and Pereira from the United States was used to support the Contras. Cabezas claimed to have personally witnessed one occasion when Pereira disbursed some of the money to a man named Joaquin Vega so that Vega could pay Honduran farmers for food for the Contra troops and their families at a camp near Danli, Honduras. Vega could not be located for interview by the OIG.

Cabezas said that his last trip taking money to Central America was just before Christmas 1982. He then stopped participating in the "Contra Cocaine" enterprise because he could not make a profit. Cabezas did not believe Pereira found anyone else to distribute cocaine for him after this time.

Cabezas told the OIG that the wiretap tapes made during the investigation of his organization in San Francisco would contain many conversations referring to the "Contra Cocaine" enterprise, and therefore, the United States government should have known about it. He claimed that one of the tapes recorded a conversation between him and Troilo Sanchez in which they discuss the fact that Zavala was in debt, and that Cabezas was to be solely responsible for the money generated by the sale of the Contra cocaine. Cabezas conceded, however, that there was no explicit mention of the Contras in that conversation. Cabezas also claimed that he had told FBI agent David Alba about the network during a post-arrest interview in February 1983. Cabezas said he had offered to help the FBI investigate the enterprise, but the FBI did not want his assistance. Cabezas said that his statements to SA Alba had been "off the record."

## **B. Cabezas' Allegation Concerning the CIA**

Cabezas also claimed to the OIG that the "Contra cocaine" enterprise operated with the knowledge of,

and under the supervision of, the CIA. Cabezas claimed that this drug enterprise was run with the knowledge of a CIA Agent named "Ivan Gomez."

Cabezas said he met Gomez only twice, both times in Costa Rica. Cabezas was not certain of the dates, but said that the first instance was an early 1981 meeting among Cabezas, Zavala, Pereira, and Sanchez in the Balmoral Hotel in San Jose, and the second instance was a mid-1981 meeting of the same people at the San Jose airport. He described Gomez as approximately six feet tall, around 180 pounds, with an athletic build and black curly hair, and without facial hair or glasses. Cabezas said Gomez might have been from the Dominican Republic, because he had a "dark complexion like a Dominican," and added that he could tell from Gomez' accent that he was not Colombian, Panamanian, Nicaraguan, Cuban or Argentinean.

Cabezas provided conflicting accounts as to how he knew Gomez worked for the CIA. Cabezas stated in one OIG interview that Gomez had said that he was with the CIA and that he wanted to make sure the money got to the Contras, but that Gomez did not show any credentials. In a subsequent interview, Cabezas avowed that Gomez had "never identified himself and did not say much" at their meeting, but that Pereira and Troilo Sanchez had told Cabezas that Gomez worked for the CIA and was there to ensure that the money from the cocaine went to the Contras.

Cabezas contradicted his own allegation about the CIA's involvement with drug trafficking, when, at the end of the interview, he told the OIG that he "did not believe the United States was involved in the 'Contra cocaine' network."

### **C. Cabezas' Earlier Claims**

In November 1984, Cabezas testified for the prosecution in Zavala's trial. At trial, Cabezas testified that he and Zavala imported ten or eleven kilos of cocaine from Horacio Pereira between November 1981 and September 1982, and that Cabezas and Zavala split the profits with Pereira. He also testified that Pereira had said he was helping the Contra revolution in Nicaragua, and that the "money belonged to help to the Contra Revolution, that he was going to sell the cocaine [sic]." Cabezas made no mention of the CIA in this testimony.

In the March 16, 1986 San Francisco Examiner article which discussed the return to Zavala of the \$36,020, reporter Seth Rosenfeld wrote that Cabezas had claimed that the proceeds from his drug trafficking "belonged to. . .the contra revolution" in which he claimed to have been "very deeply involved." Cabezas made no claim in the article of having direct knowledge that the proceeds of the drug business actually went to the Contras. There is also no mention in the article of any claim by Cabezas regarding the CIA.

### **D. FBI Investigation of Cabezas' Claim About a "Contra Cocaine Connection"**

After the 1986 San Francisco Examiner article, and after the initiation of the Senate Foreign Relations



Subcommittee investigation regarding drug trafficking and the Contras, Cabezas and Zavala were interviewed by the FBI concerning their alleged involvement in trafficking narcotics for the benefit of the Contras. In an October 8, 1987 FBI interview, Cabezas made essentially the same claim he ultimately made to the OIG in 1997 -- that he had participated in trafficking "Contra cocaine," in conjunction with Horacio Pereira, Troilo Sanchez, and Julio Zavala, for approximately one year, beginning in December 1981. Cabezas added that he had stopped selling the "Contra cocaine" for three reasons: because of losses Cabezas incurred when Zavala did not turn over "Contra cocaine" proceeds as Zavala was supposed to; because the "Contras" insisted on maintaining their \$54,000 per kilo price, despite the fact that the price of cocaine was dropping; and because Cabezas just "wanted to get out of the business." The FBI report does not reflect any mention by Cabezas of involvement by the CIA or of anyone named Ivan Gomez.

Zavala was also interviewed by the FBI concerning his involvement with and contributions to the Contras. Zavala did not claim to have participated in the "Contra cocaine" enterprise described by Cabezas. Zavala told the FBI that "no one in the Contras had ever approached him to sell cocaine and he [did] not know of any other person that was ever approached by the Contras to sell cocaine." Zavala stated that he was sympathetic to the "Contras" and that he had made "small contributions" of a "few thousand dollars on several occasions" to them. He added that he sold cocaine to make a living, and that he would have made similar contributions to the Contras had he been successful in his automobile sales business. Zavala alleged that he had been "greatly misquoted" concerning the amount of his donations to the Contras by the San Francisco newspaper reporter with whom he had spoken.

Copies of the FBI memoranda documenting the Cabezas and Zavala interviews were provided in redacted form to the Assistant Attorney General, Office of Legislative Affairs for transmittal to the Senate Subcommittee in February, 1988.<sup>(71)</sup>

## **E. OIG Investigation of Cabezas**

The OIG's focus in its investigation of these matters was on whether DOJ received information that it failed to pursue because of the United States government's support of the Contras. Our assessment of the truth of Cabezas' allegations is included here with the caveat that the OIG does not consider its interviews to constitute an exhaustive investigation of the issue of whether there was, in fact, such a "Contra cocaine connection." Moreover, too much time has passed for us to be able to arrive at conclusions concerning Cabezas' claims with any substantial degree of confidence. However, we describe what we have found and discuss our conclusions concerning his claim.

### **1. Source 1**

The OIG interviewed an FBI informant in the Frogman case, whom we refer to in this report as "Source 1."<sup>(72)</sup> The OIG agreed not to reveal Source 1's identity. According to Source 1, Cabezas and Zavala were helping the Contras with drug money. Horacio Pereira and Fernando Sanchez also claimed that they were taking the money to help the Contras. Source 1 was able to provide only a few details of the

"Contra Cocaine" enterprise -- some seem to corroborate claims made by Cabezas, but others conflict substantially with those claims.

Source 1 told the OIG that Cabezas and Zavala ran two drug trafficking organizations: one was distributing Colombian cocaine for their own profit, and the other distributing cocaine from Honduras. Source 1 was aware of how the deals were organized. In order to get cocaine from Sanchez and a man named "Rayo," Zavala and Cabezas had to agree to give 50 percent of their profits to the Contras. The money had been transported from the United States to Honduras by Horacio Pereira and Fernando Sanchez, and Pereira had once been arrested in Miami, Florida taking money out of the country. In contrast to Cabezas, Source 1 stated that the cocaine had been carried to San Francisco in "bricks" by some "girls," or shipped, concealed in rattan chairs. Source 1 noted that, during his time with the Zavala organization, no one had ever alleged or mentioned any CIA involvement.

Source 1 provided the OIG with inconsistent information concerning whether he had reported the "Contra cocaine connection" to his FBI handlers. When asked why Source 1 had not told his FBI handlers of it, Source 1 first responded that "they never asked." Then, he said he believed he had told "someone at the FBI" about the money going to the Contras, but could not recall whom. He thereafter backtracked, saying he was not sure if he told anyone, but thought he would have. He finally stated that he had separated the drug and "political" parts of the case, that he had not seen the fact of the money going to the Contras as significant, and that he was "not concerned" with reporting that fact to the FBI.

We reviewed Source 1's FBI informant file to determine what, if anything, he had said in debriefings between 1982 and 1990 about the use of drug money in funding the Nicaraguan Contras. The file contains no mention of money going to the Contras or the Nicaraguan revolution. The only references related to the Contras or the Nicaraguan revolution are as follows:

- A debriefing report of Source 1 on February 13, 1982, states that Francisco Zavala has been making silencers and sending them to Nicaragua for the revolution;
- A debriefing report of Source 1 on August 10, 1982, states that Troilo Sanchez was dealing in narcotics with McIntosh Lara, a Cuban living in Nicaragua who had contacts with a known drug dealer in the Sandinista government. Because Sanchez' ties to Somoza prevented him from going back to Nicaragua, he relied on Lara to conduct his drug business for him in Nicaragua;
- A summary of information provided by Source 1 to FBI SA David Alba on August 24, 1982, states that Source 1 had previously reported, on June 22, 1982, that "Aldolfo [sic] Calero lives in New Orleans, Louisiana and that he is definitely involved in cocaine traffic." Alba's summary is inaccurate, however, because it misquotes the June 22, 1982 report, which states: "ADOLFO CALERO was the owner of Coca Cola Company in Nicaragua prior to revolution [sic]. Since the revolution he has lived in the United States and has given millions of dollars to pay for the counter revolution. He reportedly owns a yacht and an airplane." There is no mention of Calero being involved in cocaine trafficking in the June 22, 1982 report.

-- Another summary by Alba of information from Source 1 states that, on August 25, 1982, that Francisco Zavala advised Source 1 of Francisco Zavala's belief that Aldolfo [sic] Calero and the individual for whom Zavala was working in New Orleans were "in cocaine."

We talked to Source 1 and Alba about this information. Source 1 told us that Julio Zavala's brother, Francisco Zavala, had told Source 1 that it was "Fernando" Calero, not Adolfo Calero, who was involved in drugs in Louisiana.<sup>(73)</sup> Source 1 claimed never to have heard that Adolfo Calero was involved in drugs. FBI Special Agent Dave Alba, the case agent on the Frogman case, told the OIG that Source 1 had mentioned Adolfo Calero, and that Calero was "connected to a soft drink company and had something to do with the Contras." But Alba said he did not recall hearing that Calero had any connection to drugs or the Frogman case. When asked about the reports, he did not recall them specifically.

There is no indication in Source 1's file that drug proceeds were transported by Horacio Pereira, Fernando Sanchez, or Troilo Sanchez, or that the money went to the Contras. Source 1's descriptions of where the money from Zavala's and Cabezas' drug trafficking was going focused on purchases of cars and other large purchases by Zavala and Cabezas, and tells how the two arranged for the transport of money to Costa Rica. The file contains only the following information about Sanchez and Pereira: on January 28, 1982, Source 1 identified Troilo Sanchez as Zavala's boss in Costa Rica and stated that he believed he was Mexican. On February 2, 1982, Source 1 reported that Cabezas said that Sanchez was not willing to deal with him. On April 26, 1983, Source 1 reported that Sanchez said that he and Horacio Pereira were no longer working together because Cabezas had paid Pereira, but Pereira had never paid Sanchez his share. Source 1 reported that Zavala went to look at a legitimate shrimp business that Horacio Pereira was running in Honduras, and that Pereira was concerned in early 1983 about police surveillance.

## **2. FBI Special Agent David Alba**

FBI Special Agent David Alba, the case agent in the Frogman case, told the OIG that he did not recall Cabezas or Zavala, or any of the other defendants telling him about an alleged Contra "connection" during his post-arrest interviews of them. Alba vaguely recalled that, after Cabezas' arrest, Cabezas said he had sold drugs just to make money. Alba said it was possible that Cabezas could have told him about the Contra cocaine connection "off the record," as Cabezas alleged, but Alba had no recollection of that happening. Alba also noted that "nothing is ever really off the record," once a witness has been advised of his rights after arrest. Nevertheless, Alba said he would not insist that someone stay "on the record" who was willing to provide information. But Alba did not recall Cabezas providing any information on the Contras, either on or off the record. Alba did not recall ever hearing that Zavala and Cabezas had been jointly running two separate drug organizations -- one for themselves and one for the Contras. And he noted that there had been no indication of two organizations on the wiretap tapes.

Alba had heard the names Horacio Pereira and Troilo Sanchez, but did not recall that either of them was involved with the Contras. He had heard from Source 1 that Pereira had been arrested trying to leave

Miami with around \$75,000. However, Alba stated that Sanchez and Pereira were never developed as subjects in the case, and were never indicted, arrested and prosecuted in the case, because there was no evidence linking them to the "Frogman" case, Zavala and Cabezas, or any other drug activity.

Alba was responsible for handling Source 1 as an informant. Alba said that although he had debriefed Source 1 at least once a day during the Zavala case, Alba did not recall Source 1 ever saying that the Contras were dealing drugs or profiting from the drug sales, or that Zavala or Cabezas were sending money to the Contras or selling drugs for the Contras. He noted that, while he did not always document everything he hears from an informant if it does not seem relevant to his case, he considered it "more than likely" that he would have deemed information about the Contras dealing drugs or profiting from drug trafficking to be important enough that he would have documented it. Alba also noted that Source 1 was "accurate and trustworthy as far as sources go." Alba said he had no information regarding CIA knowledge of or involvement in drug smuggling.

### **3. Assistant U.S. Attorney Mark Zanides**

San Francisco Assistant U.S. Attorney Mark Zanides, who handled the prosecutions in the Frogman case, told the OIG that he was not aware of any alleged Contra cocaine connection in the "Frogman" case until Zavala had filed his motion to take depositions. Zanides said that Cabezas, who cooperated with the government, had identified himself as a former Somoza supporter, and had not mentioned any involvement with the Contras, fundraising for them, or dealing in "Contra cocaine." Zanides found it "inconceivable" that Zavala had contributed \$500,000 in drug money to the Contras as reported in the 1986 San Francisco Examiner article. The wiretap of Zavala's telephone had shown Zavala to be consistently drunk and trying to get out of debt, because he was not making much money at drug dealing. Like Alba, Zanides was not aware of any mention of the Contras, the CIA, or "fundraising" during the lengthy period of electronic monitoring that preceded the arrests. He noted that, contrary to Cabezas' claims about "Contra cocaine," the DEA reports of investigation indicated that, although many of those under investigation were Nicaraguan, their sources for drugs were Alvaro Carvajal and his mother -- both Colombian.

### **4. Other Government Personnel**

The former OCDETF Chief in the San Francisco U.S. Attorney's Office, James Lassart, who handled the investigative portion of the case, told the OIG that he had never heard anything about the Contras or "Contra cocaine" on the wiretap conversations. Nor had he heard that cocaine was brought into the United States in woven baskets, or that it came from Peru. Lassart recalled that as far as he knew all of the cocaine in the Frogman case came to the United States from Colombia on Colombian oceanliners, was dumped overboard at the destination ports, and then retrieved and hauled to shore by swimmers in wetsuits. Lassart stated that the investigation had revealed that the money from the drug sales had been sent back to Colombia inside cardboard record album covers. He noted that he believed that Cabezas had initially worked for Zavala, but that Zavala, who was "whacked out" all the time from drugs and alcohol, "lost it," and Cabezas "sort of took over" running the cocaine trafficking enterprise. Lassart added that

the main player in the case ended up being Carvajal.

Former U.S. Attorney Joseph Russoniello told the OIG that he had no information other than rumors about Contras and drugs. Russoniello did not recall any allegations about the CIA and drug trafficking from that time period, and said he had never received any pressure from anyone to proceed differently on any case because of a "Contra or CIA connection."

Former Criminal Division Chief John Gibbons stated that he had seen allegations about drugs and Contras in the media, but did not think much of it. He stated that the "CIA defense" is a common defense in San Francisco because jurors there sometimes credit government conspiracy stories and acquit defendants. Gibbons said he was not involved at all in the investigation or prosecution of the Frogman case because it was an OCDETF, and not a Criminal Division, case.

Scott A. Nelson, the former Assistant Special Agent in Charge of the FBI San Francisco office, told the OIG that he had never heard any allegations of CIA or Contra involvement in drug trafficking, other than what the media had reported, and had no reason to believe such activity ever occurred. But Nelson did not join the FBI San Francisco office until August 1984 and therefore he had no involvement in the Frogman case. He recalled that around 1986, he had met with a person whom an agent from the FBI's Foreign Counterintelligence section in the San Francisco FBI office introduced as a CIA employee. He did not remember the name of the CIA employee or the FBI foreign counterintelligence agent. Nelson said that the CIA employee expressed an interest in learning about any allegations of drug money going to the Contras. Nelson had informed the person that he had no information about such activities. Nelson told the OIG that he felt there was something "odd" about the CIA employee asking about this information. Nelson wrote a memorandum memorializing the meeting, which he believed he placed in the FBI's Zavala/Frogman case file in San Francisco. Neither the OIG nor the FBI was able to locate this memorandum.

The OIG did locate two cables dated April 10, 1986 from a domestic CIA office to CIA Headquarters that stated that the CIA had contacted Nelson concerning the Zavala matter and learned that: (1) the FBI handled the matter as a criminal, and not a foreign counter-intelligence, matter; (2) the FBI had the "impression that Zavala and Cabezas were professional drug dealers and nothing more"; (3) Nelson offered to arrange a meeting between Russoniello and the CIA to discuss the matter; and (4) the CIA office "advised against [a meeting] because of the politicized atmosphere in which [Russoniello] works and the assumed undesirability of having it possibly become public that [the CIA] was making such local inquiries."

FBI Special Agent Fred Fresques conducted the interview of Cabezas in October 1987, discussed above, for the Senate Foreign Relations Subcommittee. Fresques said that this interview was the first time he heard about "Contra Cocaine." Fresques was unaware of any previous interviews of Cabezas about the issue, and Cabezas never claimed to have told anyone else about it. Cabezas told Fresques that he and Zavala were distributors for Alvaro Carvajal and that they had sold a couple of kilos of cocaine on their own and were supposed to send part of the proceeds back to the Contras. Cabezas had stated that, when

Zavala had failed to pay money back to Carvajal, Cabezas had had to collect the money and deliver it to Carvajal. Cabezas said Zavala was always drinking and using cocaine. Fresques reported that he had also talked with Zavala, in the early 1990s, during other investigations unrelated to Contras, but Zavala never mentioned the Contras or "Contra cocaine." Fresques also dealt with a Nicaraguan source who was in the Zavala organization, but the source had never mentioned "Contra cocaine." Fresques said that Cabezas was the only person who ever talked to Fresques about selling cocaine to support the Contras. Fresques never heard about any CIA knowledge of or participation in drug smuggling, or about any CIA interference in any investigations.

Retired FBI Special Agent Manuel Hinojosa told the OIG that he had interviewed Cabezas after his arrest. Cabezas never mentioned "Contra Cocaine" or said he was selling drugs for the Contras. Hinojosa never heard that the CIA was involved in any drug smuggling or that they knew about any drug smuggling.

FBI Special Agent Steve Dybsky told the OIG that he was assigned to the Frogman case from mid-1982 to 1984. He participated in the arrest of Zavala, and recalled that \$30,000-40,000 was seized from a nightstand drawer in Zavala's house. Dybsky did not recall Zavala having made any statement about the seized money. Dybsky did not interview either Zavala or Cabezas subsequent to their arrest, and he does not recall ever hearing any allegations of Contra or CIA involvement in the drug trafficking from anyone involved in the case.

FBI San Francisco Supervisory Special Agent W. Gordon Gibler told the OIG that the FBI had a reliable Colombian confidential informant who was influential in Central America and was a major narcotics kingpin. The informant told the FBI that the Zavala organization did not support the Contras and that the cocaine sold by Zavala was not supplied by the Contras. Gibler added that Zavala had been part of the Colombian Carvajal-Minotta organization, which had been the primary source of narcotics in the Frogman case, but Zavala had not been the leader of the organization.

Immigration and Naturalization Service (INS) Special Agent Michael Hardman, who arrested Zavala in the 1996 DEA investigation and subsequently handled Zavala as a confidential informant, told the OIG that he talked to Zavala about his alleged involvement with the Contras and drug trafficking. Hardman was not able to recall exactly when he spoke with Zavala about the matter, but is certain that it was after Zavala's arrest on March 13, 1996, but prior to Gary Webb's "Dark Alliance" series appearing in the San Jose Mercury News in August 1996. According to Hardman, Zavala told him that Zavala and Cabezas kept all of their drug trafficking profits for themselves and never gave anything to the Contras. Zavala also said that Cabezas lied about the "Contra Cocaine" connection in an attempt to "scam his way out of prison."

## 5. Julio Zavala

The information that Julio Zavala provided to the OIG conflicts with the claims made by Cabezas and Source 1. Zavala admitted that in the early 1980s he had distributed cocaine from two sources: a

Colombian named Alvaro Carvajal and Nicaraguans Horacio Pereira and Troilo Sanchez, who were living in Costa Rica. Zavala traveled to Costa Rica monthly from San Francisco to deal in drugs, usually with Pereira and Sanchez, until Cabezas -- his former brother-in-law and business partner -- cut him out of the loop and started dealing with Pereira directly. Zavala was aware of Cabezas' allegation that they were dealing "Contra cocaine," but denied it was true. He said that his dealings with Sanchez and Pereira had nothing to do with the Contras. He did not know if Sanchez or Pereira had had any relationship with the Contras.

Zavala denied ever giving money to the Contras. He explained that he "probably" told the FBI in 1988 that he had given small amounts of money to the Contras because he had given money to a friend named Lecayo, who would "probably say" that Zavala had given some small contributions to the Contras with Meneses. Zavala told the OIG that he was misquoted in the March 16, 1986 San Francisco Examiner article that quoted him as saying that he had delivered \$500,000 in drug proceeds to the Contras in Costa Rica. He said that he had never had \$500,000 to give to anyone, and that all the money he made went back to his supplier, Carvajal, who transported it back to Colombia.

## **6. Troilo Sanchez**

Troilo Sanchez, who Cabezas alleged was one of his suppliers of "Contra Cocaine," also denied Cabezas' allegations and denied being involved in any way with the Contras. However, when interviewed by the OIG, he claimed no involvement in any drug trafficking activities at all. He admitted having known Horacio Pereira, and he believed that Pereira had been involved in drug trafficking in Los Angeles and San Francisco. Sanchez said he did not know the details of those activities, but said he knew they had not been for the benefit of the Contras. He noted that Pereira and Norwin Meneses had been involved in trafficking together even before the overthrow of Somoza. Sanchez said he knew Zavala and Cabezas only socially, through Pereira.

Sanchez recalled having had contact with only one person who claimed to have been with the Central Intelligence Agency (CIA), stating that the contact had occurred in the early part of 1987. Norwin Meneses had introduced Sanchez to a Mexican male named "Roberto," who Sanchez never heard speak any English. Sanchez said that, according to both Roberto and Meneses, Roberto had worked for the CIA. Meneses told Sanchez that he was working for the DEA, and Sanchez said he assumed that Meneses and Roberto were working together. Sanchez said he did not know if Roberto was involved in drug trafficking with Meneses. Sanchez recalled that Roberto often commented that he knew Sanchez was acquainted with many Colombians, and Roberto pushed to be introduced to the Colombians. Sanchez stated that Roberto used to have a "very close relationship" with the Costa Rican police.

## **7. Fernando Sanchez**

Fernando Sanchez, who Cabezas alleged was a member of and money courier for the "Contra cocaine" enterprise, denied these claims when interviewed by the OIG. Sanchez was the Nicaraguan Ambassador to Guatemala from 1977-1979. When the Sandinistas seized power in 1979, Sanchez remained in

Guatemala, where he functioned as the representative for all Contras in Guatemala. He denied ever having carried any baskets to the United States or any money to the Contras anywhere. He also denied knowledge of any drug trafficking to support the Contras. He denied knowing Julio Zavala or Carlos Cabezas. He said he knew Horacio Pereira, who was a friend of his brother Troilo, but had no knowledge of any drug trafficking by Troilo, Pereira, or others. Sanchez stated that neither Pereira or Troilo Sanchez had, to his knowledge, ever been involved with, or given any money to, the Contras. He told how he and his brother Aristides had spent between \$5,000 and \$10,000 of their own money over a period of six months buying food and supplies for Nicaraguan refugee families in Guatemala. Shortly thereafter, the Honduran and United States governments began to subsidize them. Sanchez denied that his Contra group had ever received money from drug trafficking, claiming that allegations to that effect were "gossip." He said the Contras did not need drug money because their salaries, and all of their travel expenses, had been paid by the CIA. He said that he had had a direct CIA contact in Guatemala -- a man named "Castelairo" -- and noted that his brother Aristides also had CIA links, some of whom Sanchez had met socially at Aristides' house in Miami. Sanchez was never asked by any Contras to engage in drug trafficking and he knows of no one who was. He avowed that the FDN had been completely involved in fighting and winning the war and had no time for drug trafficking.

## **8. Doris Salomon**

Julio Zavala's current wife, Doris Salomon, told the OIG that she did not recall her husband ever saying that he or Cabezas was selling cocaine for the Contras. She denied discussing with Zavala any relationship he had with the Contras, if one existed, and she was not aware of any donations he made to them. When asked if Zavala had ever contributed \$500,000 in drug money to the Contras, Salomon laughed and stated that Zavala did not make any significant money through drug dealing and was often in debt.

Although Salomon recalled staying at the Balmoral Hotel in San Jose, Costa Rica, with Zavala, she denied ever meeting there with Troilo Sanchez, Horacio Pereira, Cabezas and Zavala, as alleged by Cabezas. She recalled seeing Sanchez and Cabezas at the hotel during her second stay but was not certain whether Pereira was also there, and did not know why the men might have been there. Salomon said she knew both Pereira and Sanchez, but not well. The last time she had seen Pereira was in Costa Rica, prior to her extradition back to the United States in early 1985 on drug trafficking charges unrelated to the Frogman case. She had heard that both were drug dealers, but did not know whether either had ever provided drugs to Zavala or Cabezas, or whether they had been connected to the Contras. Although Salomon said she had heard rumors about the CIA's involvement with the Contra movement and drug trafficking, she said she had no knowledge whatsoever about any such matters. Cabezas had told her that he was involved with the Contras, but she did not know the nature of his alleged involvement. She noted that she did not trust Cabezas and would not believe anything he said.

## **9. Horacio Pereira**

According to all accounts, Horacio Pereira is deceased. The OIG was not able to independently confirm



this claim, but was notified that efforts to locate him through the American Embassy in Managua failed.

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71. The Kerry Subcommittee's report, entitled "Drugs, Law Enforcement and Foreign Policy," included a short section on the Frogman Case, alluding to the allegations raised by Zavala and Cabezas after their convictions that they delivered money to the Contras in Costa Rica. The section also described the return of the money to Zavala. It reached no conclusions as to the validity of their claims or the reasons for the return of the money.

72. Source 1 was a CIA asset prior to his work with the FBI. In a March 1982 cable from the FBI to the CIA, the FBI asked the CIA to periodically debrief Source 1 about Zavala's drug activities in the San Francisco area. After some negotiations over whether the CIA or FBI would use Source 1, it was decided that the CIA would use him unilaterally. Shortly thereafter, however, the CIA terminated its use of Source 1 sometime in 1982 and the FBI began using him as an informant on the "Frogman" case.

73. In his first interview with the OIG, Source 1 told us that "Fernando" Calero and Adolfo Calero were brothers, and that the Caleros together headed the political wing of the Contra party in Miami, Florida. Adolfo Calero told us that he has a sister who lives in New Orleans, Louisiana, but that he does not know anyone named Fernando Calero.

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## **F. Assessment of Cabezas' "Contra Cocaine Connection" Allegations**

### **1. Inconsistencies in Cabezas' Allegations Over Time**

Cabezas related the details of his alleged participation in trafficking "Contra cocaine" in two interviews with two separate federal law enforcement agencies -- with the FBI in 1987 and with the OIG in 1997. Despite the similarity of the "general claim" in both of his interviews, there are a number of conflicting details provided by Cabezas in the two interviews. The most glaring inconsistency is the fact that Cabezas apparently told the FBI nothing about his allegation that a CIA agent named Ivan Gomez participated in the Contra cocaine enterprise. Moreover, Cabezas told the FBI that Pereira and Sanchez had wanted him personally to handle the transportation, distribution, and collection for "Contra cocaine" because "they did not trust Julio Zavala." Cabezas said that Zavala did not receive any Contra cocaine, nor was he the recipient of any Contra sales, except those "that came through [Cabezas]." When Cabezas talked to the OIG, Zavala was the "main dealer" who was responsible for receiving all the baskets, distributing all the cocaine, and collecting all the money; Cabezas was paid to simply retrieve the cocaine from the basket reeds and turn it over to Zavala, and then transport the money back to Costa Rica. There are other inconsistencies in Cabezas' two accounts as well, relating, for example, to how much Zavala paid him, and how much "Contra cocaine" the enterprise imported.

It appears that Cabezas' claims may have been embellished over time. At Zavala's trial in 1984, Cabezas testified only that Pereira had told him that he was helping the Contra Revolution. In his 1987 interview with the FBI, Cabezas claimed that Sanchez and Pereira had asked him to handle "Contra Cocaine" and that his old high school friend, Joaquin Vega, had "assured" him that the money from the drugs would be used to help the Contras. In 1997, Cabezas told the OIG that he had personally witnessed Pereira disburse drug money Cabezas had given him to Vega. The OIG was unable to locate Joaquin Vega.

### **2. Other Concerns Regarding Cabezas' Allegations**

When asked to identify Ivan Gomez from an array of sixteen photographs of males of Latino descent, some of whom were persons known or thought to have been associated with the CIA in the Central American region during the period of the Contra conflict, Cabezas became visibly shaken but reluctantly agreed to participate. Cabezas chose two photographs as "possibilities," stating that one was "closer" than the other, and that the other photographs were not possibilities. The two photographs Cabezas chose were not "Ivan Gomez."

The CIA OIG verified to the OIG that there was a CIA officer who used the alias "Ivan Gomez" working in Costa Rica during the time Cabezas claimed that the "Contra Cocaine" enterprise was formed and that two photographs of Gomez were included in the photo array -- one of which was of Gomez in "operational disguise." The asset's picture was not one of the two "possibilities" chosen by Cabezas.

We also found it unusual that Cabezas could not name the Contra group for whose benefit he had run the

"Contra cocaine" enterprise for over a year, and for whom he allegedly transported "one to one and one-half million dollars" back to Costa Rica and Honduras. He was able to identify the group only as "the Contra group which was the former National Guard under Somoza, not Eden Pastora's group."

### 3. Cabezas' Drug Ledger

Cabezas told the FBI in 1987 that he had kept records that would reflect the payments and distribution of the money in the "Contra Cocaine" enterprise. In 1997 he made two different claims to the OIG: First, Cabezas said he had kept a ledger with separate entries of all transactions for both the private and "Contra cocaine" enterprises; then he changed his account, and said he had kept separate ledgers for the two enterprises. One ledger was in fact seized by the FBI at the time of Cabezas' arrest. That ledger appears to have separate sections for each person involved in the distribution network, but does not differentiate between the two separate organizations or the two different suppliers.

Cabezas made a number of claims about the "Contra Cocaine" enterprise and transactions that occurred, which he said were reflected in his ledger. Examination of the ledger does not appear to substantiate these claim. Among a number of inconsistencies and contradictions to his statements are:

-- Cabezas claimed at different times that the enterprise began importing "Contra Cocaine" somewhere between November 1981 and January 1982. His drug ledger begins in August 1982.

-- Cabezas claimed in court testimony, to the FBI, and to the OIG, respectively, that the enterprise imported "10 or 11," "18 or 19," and "25 to 30" kilos of cocaine during the period of operation. The ledger appears to indicate the importation of only a total of seven or eight kilos.

-- Cabezas told the OIG that he personally made over twenty trips carrying money to Honduras and Costa Rica, that he transported between \$1 million and \$1.5 million, and that the largest amount he carried in one trip was \$250,000. The ledger does not substantiate any of these claims.

-- Cabezas told the OIG that he had removed the cocaine from the first basket taken to the United States, had given it to Charlene Rizzo who sold it all in one day, and that he had then returned to Honduras with about \$100,000 to pay Pereira for the first two kilos of Contra cocaine. The ledger has no entries showing anyone carrying \$100,000. There was one entry stating "Envio con CC 56.000 = 100882". This appears to indicate that Cabezas made a payment of \$56,000 to someone, leaving him with a balance owed for cocaine of \$100,882.

-- Cabezas told the OIG that on two or three occasions he carried \$40,000 to \$50,000 from California to Aristides Sanchez' office in Miami. Cabezas' drug ledger does not substantiate this claim.

### 4. Assessments of Cabezas' Credibility

Assistant U.S. Attorney Lassart, who supervised the Frogman investigation, stated that Carlos Cabezas

is a "jolly BS-er" who is prone to exaggeration and embellishment and is not to be believed. He referred to Cabezas as "Mr. Hyperbole." AUSA Zanides concurred that Cabezas is capable of fabricating a story he believed was in his self-interest. FBI agent Alba told the OIG that Cabezas is a "BS-er" who would make up good stories to cover himself, especially on the telephone intercepts. Doris Salomon opined that Cabezas "is not honest" and that he "believes his own lies."

FBI SA Fresques, however, said Cabezas "had a conscience" as a trafficker. Fresques believed that Cabezas dealt with only a couple of kilos of cocaine and that part of the money was supposed to go back to the Contras. Fresques said that he respected Cabezas and did not believe that Cabezas would make up stories.

## **G. OIG Conclusions on the "Contra Cocaine Connection" Allegations**

First, we found no evidence that Cabezas mentioned the Contra cocaine connection to law enforcement officers before testifying at Zavala's trial. All law enforcement officers interviewed were consistent on this point. Nor is there any evidence that Source 1 ever reported the alleged Contra cocaine connection to the FBI or any other DOJ component. Source 1 himself could not recall if he told anyone -- initially stating that he had not told anyone because "they didn't ask," then saying that he had told someone but could not recall who, and still later stating that he may not have told anyone because he separated the political from the drug portion of the investigation. Source 1's almost daily debriefing records do not reflect any mention of this scheme, despite a careful record of information given regarding how drug proceeds left the country.

The prosecution of Zavala, Cabezas, and their co-defendants was aggressive. Indeed, the U.S. Attorney's Office prosecuted Zavala on CCE charges even after his guilty plea to lesser charges, despite protests by the trial judge about how much the subsequent trial was costing the taxpayers. The only reason Horacio Pereira and Troilo Sanchez were not prosecuted was because the evidence against them was insufficient, not because of any alleged link to the Contras. The accounts of FBI SA Alba and Assistant U.S. Attorney Lassart on this score are corroborated by an FBI San Francisco teletype to the Director of the FBI, dated November 8, 1982, (prior to the Frogman arrests), which identified Troilo Sanchez, Fernando Sanchez, and Horacio Pereira as Zavala's sources of cocaine but noted:

Previous DEA investigations have characterized Pereira as the major source of cocaine smuggling from Costa Rica to the United States. DEA further indicated that to date they have not been able to penetrate his operation, due to the fact that it is "an extremely closely knit organization."

Second, as to Cabezas' underlying claims that he trafficked in "Contra cocaine" for the benefit of the Contras with the knowledge and consent of the CIA, we found no documentary, physical, or credible testimonial evidence to substantiate this claim. We recognize that over 15 years have passed since the alleged events and our main evidence comes from interviews of some of the alleged participants. But these interviews lead us to conclude that it is unlikely that the "Contra Cocaine" enterprise operated, as

described by Cabezas. It is quite clear that both Cabezas and Zavala were drug dealers who trafficked in cocaine in the San Francisco area and traveled, by their own admission, to Costa Rica. It appears likely that Cabezas and Zavala may have obtained some of the cocaine they distributed from Pereira and Sanchez, as they claimed. However, we did not find clear or sufficient evidence to conclude that the importation and distribution of that cocaine was done with the knowledge of the Contras, at the behest of the Contras, or with the express purpose of financing the Contras.

In finding that it is unlikely that such a Contra cocaine connection existed, we considered the following factors: Cabezas was the only person we found who claims to have participated in the "Contra Cocaine" enterprise, and even his own accounts, provided at various times to various agencies over the years, contain an enormous number of inconsistencies and discrepancies. Although Source 1 stated that Cabezas had claimed that he was trafficking in cocaine to benefit the Contras, Source 1 had no direct personal knowledge of the alleged scheme. His knowledge was based on what "members" of the enterprise claimed to him that they were doing. Source 1 knew few details of the enterprise, and many of those he did provide are quite different from those provided by Cabezas. It is also noteworthy that Source 1 never reported this information prior to his OIG interviews and the recent media coverage. All of the other persons whom Cabezas named as his co-conspirators in the "Contra Cocaine" enterprise denied the existence of the organization or any participation in such a conspiracy. None of the government agents and attorneys who worked the case recalled seeing any indications of Contra involvement during the investigation, or even hearing allegations of Contra involvement prior to 1984, when Zavala claimed the money seized from him belonged to the Contras.

We also did not find sufficient evidence to support Cabezas' claim of any CIA involvement with his drug trafficking operation. The first mention of this claim came during Cabezas' OIG interview, and he could not even pick out a photograph of his CIA contact from a photographic array. Neither Zavala nor Source 1 had any knowledge of CIA involvement with drug trafficking. And we found nothing in DOJ files supporting this claim.

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## Chapter X: Celerino Castillo

Former DEA Special Agent Celerino Castillo III has alleged that the Contras used Ilopango Airport in El Salvador to traffic in drugs, with the full knowledge of the CIA. He has also alleged that, when he was assigned to the DEA Guatemala City Country Office (GCCO), he was ordered not to investigate these drug trafficking operations. Castillo has further alleged to High Times magazine that his drug enforcement efforts in Central America were stymied by the "Reagan White House secret 'Contra' war in Nicaragua." According to Castillo, money from Iranian weapons sales to fund the Contras was a "drop in the bucket" and that, "to the best of my knowledge, most of the [Contras'] money came from drug trafficking." Finally, Castillo has alleged that the DEA later retaliated against him for pursuing these matters by launching a series of disciplinary investigations against him.

The OIG has attempted to investigate Castillo's claims, but has faced several major impediments. First, Castillo refused to be interviewed by the OIG unless he was able to tape record the interview and have Congresswoman Maxine Waters present at the interview. The OIG agreed to tape the interview and provide it to him at the conclusion of the investigation. The OIG also agreed to allow Castillo to have a personal representative with him in the interview, but the OIG told Castillo that it was inappropriate for Congresswoman Waters to be involved in the investigation being conducted by the OIG. At our request, Congresswoman Waters attempted to convince Castillo to meet with the OIG because of the importance of his allegations, but she was unable to persuade him to do so.

Another obstacle to the OIG investigation of Castillo's allegations was the refusal of several retired government personnel be interviewed by the OIG. The former DEA Country Attache for Costa Rica, the former CIA Chief of Station for Costa Rica, and the former CIA Chief of Station for El Salvador refused to be interviewed by the OIG. While former DEA Country Attache Robert Stia agreed to an initial interview with us, he did not make himself available for a second interview to clarify certain issues that arose concerning his role in these matters. Also our attempts to locate and interview former Salvadoran Air Chief General Juan Rafael Bustillo, who commanded the Ilopango military airbase, and former DEA informant STG-86-0006 (STG6), who worked with Castillo in El Salvador, were not successful.

We have, however, been able to gather information relevant to Castillo's allegations from a number of sources, review DEA files, and interview many persons who had information relevant to Castillo's claims. As we discuss below, we did not find significant evidence suggesting that the core of Castillo's claims concerning drug trafficking by the Contras and the CIA were substantiated.

### A. Background

Castillo grew up in Edinburg, Texas, and served in the U.S. Army in Vietnam. After he returned from Vietnam, he was a police officer in Edinburg from 1973 until 1979. While a police officer, he earned a degree in criminal justice from Pan-American University in 1975. In 1979, he joined the DEA as a special agent. Castillo's first DEA assignment was in New York City, where he remained until 1984,

when he was transferred to Peru.

Castillo told High Times magazine that, despite his successful work in Peru, his supervisor, a non-Spanish speaker, felt threatened by him and transferred him to Central America without a promotion, which Castillo originally had been promised. However, according to DEA Special Agent Russell Reina, who worked with Castillo in Central America, Castillo allegedly was transferred from Peru to Guatemala after a picture of him posing in camouflage clothing with two machine guns in his hands appeared on the front page of a Peruvian daily newspaper. The DEA believed that this photograph compromised Castillo's identity and ability to work undercover, as well as his credibility in Peru.

DEA records confirm that in October 1985, Castillo was transferred from Peru to the DEA's office in Guatemala City. The Guatemala office was responsible for four countries: Guatemala, El Salvador, Belize, and Honduras. Castillo had primary responsibility for El Salvador. Castillo remained in Guatemala from August 1986 until 1990, when he was transferred to the San Diego DEA office and then to the San Francisco DEA office. In 1992, he resigned from the DEA under circumstances which we describe in section J.

## **B. Castillo's Allegations**

Because Castillo would not agree to an interview by the OIG, we had to collect Castillo's allegations from media reports quoting him, from allegations made in his book, Powderburns (published in 1994), and from previous interviews of Castillo, such as a 1991 interview by a FBI agent Michael Foster as part of the Iran-Contra Office of Independent Counsel's (OIC) investigation. Castillo's main allegations collected from these sources that relate to our review were:

- the covert United States operation that supplied the Contras also smuggled drugs to help finance the war;
- pilots working for the Contras did their own trafficking on the side and could smuggle with impunity because they flew on "the same airline as Oliver North" and were helping the Contras;
- Castillo met with a "wall of resistance" from the CIA, the U.S. Ambassador to El Salvador, and the DEA when he attempted to investigate drug smuggling at Ilopango Airport;
- Castillo documented drug flights out of Ilopango -- listing pilot names, tail numbers, dates and flight plans -- and sent them to DEA Headquarters but no action was taken;
- A CIA employee told Castillo that the only way for the Contras to receive money was through the sale of drugs and the CIA employee asked Castillo to discontinue his investigation at Ilopango; and
- the DEA retaliated against Castillo for looking into the CIA-Contra connection by launching internal investigations of him.

We reviewed these claims, focusing particular attention on his allegations that his investigations were hindered by various government entities. We describe the reports he filed concerning his investigation of two pilots at Ilopango Airport, as well as the evidence we gathered and interviews we conducted concerning his other allegations. As we describe below, there is some factual support for several of Castillo's claims, but we found that the broad inferences drawn by Castillo about these facts were unsupported by the evidence.

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## **C. Castillo's Allegation Concerning Ilopango Airport**

Castillo claims that the CIA, the U.S. Ambassador to El Salvador, and the DEA colluded to prevent him from pursuing certain investigations that linked the Contras and the CIA to drug trafficking. These claims relate primarily to Walter Grasheim and Carlos Amador, two pilots who, according to Castillo, allegedly smuggled drugs from the Ilopango Airport for the Contras with the complicity of the CIA.

### **1. Investigation of Walter Grasheim**

#### **a. DEA Reports on Grasheim**

The earliest reference to Grasheim we found in DEA files was a cable from a DEA agent in Panama, sent on March 10, 1986, to DEA Headquarters and various DEA offices in Central America and the United States. The cable reported that on March 7, 1986, Panamanian authorities informed the DEA there that Grasheim and an Israeli national had flown a private aircraft into Panama from El Salvador and, when initially questioned about their business, claimed to be DEA agents. When further questioned, they claimed that they were in Panama to meet with the Defense Attache at the American Embassy, but that office said they did not know Grasheim or the Israeli. The cable also reported that Grasheim was the subject of an investigation by the U.S. Customs Service in New York for arms smuggling from the United States to Latin America.

The next reference to Grasheim in DEA files was contained in a debriefing report written by Castillo on June 23, 1986. In this report, Castillo discussed what a confidential informant, STG6, said about various alleged cocaine traffickers in El Salvador. The informant identified Grasheim as "head of smuggling operations at the Illopango [sic] Military International Airport." Grasheim allegedly identified himself with FBI credentials and a U.S. pilot's license and claimed to be a military advisor to the Salvadoran military. According to the informant's report:

Grasheim owns and operates Hangar #4 at said airport. Said hangar is utilized by international cocaine and arms traffickers. Hangar #4 is also utilized by the Contra Movement in El Salvador.

Castillo's report went on to describe other alleged drug traffickers in El Salvador, including pilot Carlos Amador, and companies and aircraft that were allegedly used in the trafficking activities. This report was filed in a general "Air Intelligence" DEA file.

On October 27, 1986, Castillo opened a DEA case on Grasheim. Castillo's case opening report stated that based upon the information provided by two informants, STG6 and STG13, an investigation was being initiated involving air smuggling of cocaine by subjects who were believed to be associated with the Contra movement. The report stated that for the previous few months, the DEA's Guatemala office, in coordination with the narcotics unit of the Salvadoran police, was investigating drug trafficking at

hangars four and five at the Ilopango airbase. According to Castillo's report, the Salvadoran armed forces Chief of Staff, General Adolfo O. Blandon,<sup>(74)</sup> had limited the Salvadoran investigation "for security reasons." Castillo's report stated that, despite the General's directive, STG6, who worked at Ilopango Airport, nevertheless kept Castillo informed of smuggling operations there.

Castillo's report said that hangars four and five were operated by the Contra rebel movement, Felix Rodriguez (aka "Max Gomez"), and Walter Grasheim. Grasheim allegedly abused the use of hangars four and five, which had been provided to him by the CIA, by running an international narcotics smuggling operation out of them. Grasheim used United States government credentials to bypass local authorities at the airport. Grasheim was also reported to have ties to mercenaries and the Contra movement in Nicaragua.

The report supplied the names of thirteen other "documented narcotics traffickers" who also used hangars four and five at Ilopango, as well as the names of nine individuals who allegedly traveled with Grasheim abroad. According to the report, Salvadoran authorities would let some of the traffickers stop on the taxiway upon landing their planes at Ilopango. A passenger would then exit the aircraft with a suitcase and run to the military side of the airfield. The aircraft would then continue to Salvadoran Customs and Immigration without declarations of either passenger or cargo. Castillo's report did not supply any details about when this happened or who was involved.

Also, according to Castillo's report, on May 3, 1986, Grasheim had crash landed his airplane six miles northwest of the Tamiami, Florida, airport while trying to fly from Ilopango to Florida. At the accident scene, Grasheim had identified himself as a "secret agent" with the United States government, and according to Castillo's report, had turned a suitcase over to the police that he said contained highly classified documents. Castillo's report stated that the suitcase weighed approximately 60 pounds and was reported to have contained cocaine, and that Grasheim had failed to clear Customs following the accident.

The report added that on March 7, 1986, Grasheim allegedly flew a plane into Panama and identified himself as a DEA agent to Panamanian authorities. According to Castillo's report, the DEA denied knowing Grasheim.

Castillo's report stated that on August 28, 1986, he had advised the U.S. Ambassador in El Salvador, Edwin Corr, of Grasheim's illegal activities. Corr said that Grasheim was at one time employed by the United States Embassy Military Group (Milgroup) in El Salvador.

According to the report, on September 1, 1986, based on surveillances and informant information that Grasheim was in possession of drugs and weapons, the Salvadoran police searched his residence in El Salvador and seized a small amount of marijuana, plastic explosives, cases of grenades, sniper equipment, silencers, anti-tank rockets, machine guns, pistols, night vision equipment, military radios, and an undetermined amount of ammunition for a variety of weapons. Three vehicles were also seized, one of which had a license plate registered to the U.S. Embassy. The Embassy denied the license plate

belonged to it.

The report said that the Salvadoran armed forces and the U.S. Embassy were advised of the results of the search. Both the Salvadorans and the U.S. Embassy Milgroup denied giving Grasheim any of the equipment seized from his house, according to Castillo's report. Castillo wrote that it was believed that the equipment might be stolen property. The report also stated that the Salvadoran government issued arrest warrants for Grasheim for possession of illegal weapons and explosives.

According to Castillo's report, on September 19, 1986, Grasheim submitted a sworn statement to the Salvadoran authorities about the items found in the search of his residence. His statement alleged that the Salvadoran armed forces had named him as a military advisor and had given him all the weapons, explosives, and ammunition found during the search. The Salvadoran armed forces denied Grasheim's claim that they had given him the seized items and the Salvadorans added that there were no provisions under Salvadoran law for civilian advisors.

In addition to this case opening report, on October 31, 1986, Castillo filled out a DEA personal history report on Grasheim, giving Grasheim's identifying information as well as a short description of the case in the remarks section. Castillo stated that Grasheim was the "head of a cocaine organization that export [sic] cocaine out of the Illopango [sic] Military Airport in San Salvador, El Salvador. He is a member of the Contra moverment [sic] freedom fighter based out of El Salvador." Castillo then described the previous reports on Grasheim, the search of his house, and the weapons found there.

On November 5, 1986, Castillo wrote a case status report. Castillo reported that Grasheim recently returned to El Salvador on October 29 and had contacted several individuals in the U.S. Embassy and the Salvadoran Government. As a result, Ambassador Corr had asked Castillo and U.S. Customs Service agent Richard Rivera, who was investigating Grasheim for arms smuggling, for a status report on their cases.

According to Castillo's November 5 report, on October 30, Castillo and Rivera briefed Corr. Castillo told Corr that the Salvadorans had issued arrest warrants for Grasheim for possession of narcotics and weapons, but that the warrants had not been executed because of some outstanding business deals the Salvadoran government had with Grasheim. Rivera advised Corr that the U.S. Customs Service had been investigating Grasheim for the previous few years for illegal exportation of "hi-tech" equipment and weapons to Central America without a license. According to Castillo's report, Ambassador Corr "stated that he welcomed any investigation on Grasheim but that the only thing he asked was that the investigation be conducted in a very discreet manner." As we describe below, Corr told us that he was concerned that such an investigation without an adequate factual basis could imperil relationships that had been developed with Salvadoran officials.

Castillo's report stated that he and Rivera next interviewed General Adolfo Blandon, who had recently been contacted by Grasheim. Grasheim had asked General Blandon to certify that Grasheim's possession of the weapons found at his residence was legal. Blandon had declined to do so.

Castillo also reported that he had interviewed an unidentified source of information at the U.S. Embassy in El Salvador. This source said that Grasheim had contacted a member of the U.S. Milgroup at the Embassy and had threatened that if he "was arrested, then everybody else was going to go down with him." According to the source, Grasheim said that he had telephone recordings of conversations with other members of the Milgroup.

The report added that Grasheim had left El Salvador, but that the U.S. Customs Service expected to issue an arrest warrant for Grasheim in a few weeks for illegally exporting weapons and hi-tech equipment.

The next, and final report, that we found in DEA files on Castillo's case against Grasheim was a case closing report, written by the Guatemala DEA Country Attache, Robert Stia, on November 21, 1986. Stia referred to the previous reports about Grasheim in DEA files and the search of his house by the Salvadoran narcotics unit. Stia reported that the search had "precipitated an investigation into the clandestine illegal operations of Grasheim, and his relationship with the U.S. Embassy and the Salvadoran government officials." The report noted that Grasheim had made veiled threats to Embassy Milgroup officials about "illegal activities by [United States government personnel] in his dealings with them," and that Grasheim had questioned "DEA's right and authority to conduct an investigation into his activities."

The report said that, as a result, Ambassador Corr had requested that a "full scale, but very discreet investigation be conducted on the activities of Grasheim." Without describing what the DEA's investigation entailed, the report then said that "DEA has no further interest in Grasheim at this time and it is unlikely to develop further drug information about Grasheim directly." Stia wrote that Ambassador Corr was advised of the case closing and that all information developed by the DEA was turned over the U.S. Customs and the Internal Revenue Service (IRS), who were conducting an active investigation into Grasheim's activity, past and present, regarding illegal possession and exportation of military supplies. The report noted that U.S. Customs Service and the IRS would keep Ambassador Corr advised, and that Grasheim had left El Salvador and his whereabouts were unknown. The report stated that "[t]he drug aspect of this portion of the investigation is concluded and therefore this particular file is closed."

## **b. OIG Interviews related to the Grasheim case**

The OIG interviewed a number of individuals about the Grasheim case, including Grasheim himself. The following describes the results of those interviews.

### **(1) Felix Rodriguez**

Felix Rodriguez worked for the CIA, beginning in the 1960s, throughout South and Central America. In 1976, he retired from the CIA on a total disability due to job related injuries. Since then he has been a consultant to various government agencies.

Rodriguez told us that, in March 1985, he went to El Salvador, with the approval of the U.S. government, to oversee a counterinsurgency program run by the government of El Salvador and financed by private United States funds. The program was based at the Ilopango Airport, which Rodriguez described as a medium to small facility with separate military and civilian sides. Both sides shared a runway, although the military side was off-limits to civilians. The military side was controlled by the Salvadoran armed forces. There was a fence surrounding the entire military side, with approximately three entrances, each manned by Salvadoran security. Anyone who wanted access to the military side needed a pass. Passes could be obtained through the U.S. Embassy. With a pass, the person could move around the military side of the facility freely. Hangars four and five lay within the military side. Hangar four was used by the Salvadoran military to store equipment and helicopters, which Rodriguez used during his various missions. According to Rodriguez, the CIA controlled hangar five, where it kept a helicopter for operational purposes. Generally, the sliding doors on hangars four and five remained open.

Rodriguez said that in 1985, at the request of Oliver North, Rodriguez made arrangements for the Ilopango airfield to be used to unload equipment and supplies destined for the Contras. Over the next year, four or five 707-type planes landed at Ilopango to unload these supplies. Rodriguez added that throughout the time he spent in El Salvador, he witnessed many planes unloading equipment at Ilopango, but he said he never saw or had reason to believe that drugs were being transported by the pilots.

Rodriguez recalled that, in 1986, a man named Carson had come to Ilopango to work as a mechanic. Carson told Rodriguez that he had fixed planes for drug traffickers in Colombia and elsewhere, and Carson told another employee that he had heard the operation in Ilopango was "a money making project." Believing that Carson was referring to drug trafficking, Rodriguez sent Carson back to the United States within three days, and then called North to complain about Carson and ask that North not send people with backgrounds like Carson's. Rodriguez said that this was the only incident to his knowledge in which a valid concern about drug trafficking arose. He said that, although some people associated with the Contra resupply operation took advantage of the Salvadoran government by grossly over-charging for equipment, he had no knowledge of drug activity by anyone, either Salvadoran or American. He recalled that General Bustillo, who ran the airport, was very "hard nosed" and one of the most honest people he has ever met. When Bustillo heard of DEA allegations concerning drug activity by Contra pilots using Ilopango, Bustillo had asked Ambassador Corr to place drug-sniffing dogs at the airfield. Although, to Rodriguez' knowledge, Corr never did so, Rodriguez thought that it would have been extremely difficult to smuggle drugs in and out of the air base undetected.

Rodriguez said he has never met Castillo but knew who he was. Rodriguez said he heard about Castillo's allegations through media reports but said he does not believe them. Rodriguez said that he knew a lot of people in El Salvador and, just as he found out about Carson's drug-related activity, he believes he would have found out about other drug information related to Ilopango if it had occurred.

## **(2) Edwin Corr**

The OIG also interviewed former U.S. Ambassador to El Salvador Edwin Corr, who was the Ambassador in El Salvador from 1985 to 1988. Corr recalled that Robert Stia, the DEA's Country Attache in Guatemala, had brought Castillo to meet Corr in 1986, soon after Castillo had arrived in Guatemala. Shortly after the meeting, Castillo had developed information from confidential informants that Grasheim was allegedly involved in smuggling large quantities of cocaine through El Salvador and ultimately into the United States. Corr said that Castillo briefed him on a regular basis concerning the Grasheim investigation and other drug matters that could have affected the relationship between the U.S. and El Salvador. Castillo reported to Corr that the Grasheim investigation involved air smuggling of cocaine by subjects believed to be associated with the Contra movement, and that Grasheim was a major trafficker who had befriended several Salvadoran officials at the Ilopango Airport.

Corr told us he thought Castillo was very professional and a good agent, so he had no reason to question Castillo's investigation concerning Grasheim. Although Corr had been told by U.S. Embassy personnel that drugs were not a major issue in El Salvador, he said that his prior service in Peru and Bolivia had sensitized him to the drug problem, and he had requested an analysis on whether there had been an increase in the number of Colombians traveling into El Salvador. Because the analysis showed such an increase, Corr believed that a higher priority needed to be given to combating drug trafficking in El Salvador. He said he was therefore very supportive when Castillo told him about the Grasheim investigation.

Corr stated that, despite Castillo's efforts, the drug case against Grasheim was never proven. Corr had not known Grasheim personally, but was told by a member of his security staff that, several weeks after Grasheim's house had been searched by the Salvadoran authorities, Grasheim came to the U.S. Embassy and demanded to see Corr. Corr said his security staff turned Grasheim away. Corr said that, because of the weaponry found at Grasheim's house, Corr had canceled United States government contracts with Grasheim for night vision equipment that the United States was supplying to the Salvadorans, thinking it would be best to sever all ties with Grasheim.

Corr said that after the search, Castillo continued to make allegations concerning Grasheim's possible involvement with Salvadoran officials and Contra rebels in drug trafficking. Corr said that at some point, General Bustillo heard about claims of trafficking at Ilopango and asked Corr to put drug-sniffing dogs there. Corr said that before doing so he had wanted to be sure that the allegations concerning the Ilopango Airport were serious enough to warrant the use of such resources. He also noted that he had not wanted to validate a false allegation that could destroy relationships with Salvadoran officials that had taken so long to build.

Corr therefore sent a "back channel" cable -- a secret cable for limited viewing -- to State Department Headquarters requesting that the DEA be asked to review Castillo's allegations. Corr did not remember when that cable was sent. According to Corr, DEA Headquarters responded that, as a result of the search warrant served on Grasheim's residence and the lack of any additional evidence concerning Grasheim's drug involvement, the case on Grasheim would be closed by the DEA.

The OIG was unable to locate in DEA files any cable or DEA response referred to by Ambassador Corr. The OIG asked the Department of State to search for Corr's back channel cable or any response to him, but the State Department could not find any such cable.

Corr said that after his back channel cable, Castillo had been told by his supervisors to close his investigation on Grasheim and move on to something else. But Corr said that Castillo continued "to snoop around the airport and make allegations." Corr said he informed Castillo that, if Castillo had additional evidence on trafficking by Grasheim or anyone else at Ilopango, he would support Castillo's investigative efforts, but if Castillo had no such evidence he would have to stop the "witch hunt." Corr warned that they were dealing with a very sensitive matter, and Castillo would have to take care not to make false allegations. Corr noted that, after this conversation, Castillo did not attempt to pursue the Grasheim matter any further.

Corr told the OIG that, although there was a large contingent of U.S. military personnel and advisors in El Salvador at that time, the Ilopango Airport was controlled by the Salvadoran military. He said that there may have been some independent pilots flying in and out of the Ilopango Airport transporting drugs, but that no evidence had ever been presented to him corroborating that suspicion. Corr said he had a good working relationship with the CIA, and that the CIA kept him informed about its activities, including its supplying the Contras with intelligence information and basic equipment. Corr added that the CIA was upset with Oliver North because he was performing rogue operations with the Contras and not keeping the CIA informed. Corr said that he had no knowledge that North was flying arms into El Salvador and that North seemed conscientious in keeping away from drug dealers. Corr said that one of the mechanics from the crew of planes used by North for the supply of the Contras who was suspected of having some involvement with drug trafficking was terminated immediately.

Corr said that he did not recall the CIA ever asking him to pressure the DEA to back away from an investigation. Corr said that with the exception of some unknown problem between Castillo and the CIA Chief of Station, the CIA and the DEA appeared to get along fairly well and share information regularly. He said that Castillo never suggested to him that the CIA was conspiring with the Contras to traffick drugs.

### **(3) Abraham Azzam**

Retired DEA SA Abraham Azzam told the OIG that in the mid-1980s he had worked in DEA's Office of International Operations, which supervised the DEA's operations internationally. In that capacity, Azzam interacted with Castillo. Azzam opined that Castillo had seemed to be somewhat "insufficient" as an agent, particularly in his ability to control informants. Azzam said that until Castillo came forward with allegations in the fall of 1996, he had never heard allegations that the Contras as a group or the CIA were involved in illicit drug activity.

Azzam said that in the course of his work, he found that the CIA seemed to be very careful about whether any of its operatives had a drug history. CIA Central American Task Force Chief Alan Fiers

would regularly ask Azzam to check whether a potential operative had a drug history. Azzam said that most of the names he was asked to check were not in the DEA database. Azzam stated that the DEA has an impressive international intelligence capability and that he had never heard any allegation through intelligence information or otherwise that the CIA or Contras as a group were involved in drug activity. He said that although many people could have been opportunistic and sold drugs for personal reasons, it was not likely that the CIA or the Contras as an organization had supported any illicit drug operation.

Azzam vaguely recalled Corr's sending a "back channel" cable asking the State Department to inquire whether the DEA had a valid case against anyone at the Ilopango Airport, because Castillo had been making allegations concerning individuals (Salvadoran and U. S. military people) there. After researching the allegations, the DEA Intelligence unit had not been able to locate any information to substantiate the charges, and the DEA reported back to Corr that it did not have a valid investigation concerning anyone at Ilopango Airport. Azzam could not recall any particulars of the Corr cable or whom the correspondence went through at the DEA.

#### **(4) Robert Stia**

Robert Stia, now retired, was the DEA Country Attache in Guatemala from 1985 until 1991, and supervised Castillo when Castillo was assigned there.<sup>(75)</sup> Stia described his working relationship with Castillo as "normal." He recalled that Castillo needed a lot of guidance, because Castillo was aggressive, but poorly focused, and unable to distinguish between promising lines of inquiry and allegations that seemed without substance. According to Stia, Castillo was quick to make judgments before conducting an adequate investigation, and Stia did not find those judgements to be trustworthy.

Stia told us that he was vaguely familiar with the Grasheim investigation conducted by Castillo. Stia thought that the investigation had been initiated based on information received from the U.S. Embassy in El Salvador that Grasheim might have been involved in smuggling drugs into the United States. Stia said the case was closed shortly after a search of Grasheim's residence turned up only a small amount of marijuana. Stia noted that Castillo had never given the impression that he wanted the case to remain open, and that it was customary to close cases when all leads had been exhausted.

Stia recalled that intelligence information indicated that some Salvadoran military pilots were using the Ilopango Airport to transport drugs, and Castillo had made similar allegations. But neither Castillo nor anyone else had been able to substantiate the allegations. Stia said he did not recall, before the recent media coverage, hearing an allegation that the CIA and the Contra resupply operation at Ilopango Airport were running drugs into the United States to raise money for the Contras. Stia said that his office had worked closely with the CIA and frequently shared information -- a relationship that was instrumental in the Guatemala DEA office's success in drug seizures between 1987 and 1989. He said that he believed the CIA was open and honest with the DEA in most instances.

#### **(5) Richard Rivera**



Richard Rivera has worked for the U.S. Customs Service since 1975. From 1985 until 1990, he was assigned to the U.S. Customs Service Mexico City office, handling cases there and throughout Central America. Rivera first met Celerino Castillo in Guatemala in 1986.

Rivera said that he did not get involved in the Grasheim case until after the Salvadoran police served the search warrant on Grasheim's residence. Rivera said that a lot of weapons and military equipment were found at the residence, and that the U.S. Customs Service entered the case because of the possible violations of law relating to the exportation of weapons. But Rivera said that the U.S. Customs Service never developed enough evidence on Grasheim for an indictment and eventually closed the case.

Rivera did not recall hearing from Castillo or anyone else that the CIA or the Contras were involved in drug activity. Rivera also said that neither Castillo nor anyone else ever told him that hangars 4 and 5 at the Ilopango Airport were used to facilitate drug activity by the CIA or the Contras. The Salvadoran military commander gave Rivera a tour of Ilopango Airport and informed him that the military side of the base, including hangars 4 and 5, was a restricted area. Rivera said that he never had a reason to attempt to gain entrance into those hangars, and that he never heard from Castillo that Castillo was denied entrance into those hangars.

Rivera said that he thought that Grasheim had an association with the Milgroup and the CIA, but he did not remember that Grasheim had any association with the Contras. Rivera added that if Castillo had an investigation concerning the CIA and the Contras, Castillo never shared that information with him. Rivera also stated that he debriefed many of Castillo's confidential informants and they never told him about any CIA or Contra drug activity.

## **(6) Walter Grasheim**

We also interviewed Walter Grasheim, now a businessman in Miami. He told us that in the mid-1980s he owned Metro/Egida Limited, a protection and defense support business specializing in night vision equipment. At the request of General Paul Gorman, the head of the United States Southern Military Command, he had gone to El Salvador to help the Salvadoran military with its counterinsurgency efforts and with night combat in particular. Grasheim trained the Salvadorans in night vision combat for several weeks before receiving a contract from the U.S. government for the sale of night vision equipment. Grasheim said he immediately established a rapport with the Salvadoran military and the U.S. Milgroup personnel there, and was allowed to participate in Salvadoran field operations.

Grasheim said he frequently flew his plane in and out of El Salvador. He said that he was never involved in smuggling drugs or weapons. In 1986, one of the secretaries in the U.S. Embassy in El Salvador told him that he was suspected of being a drug trafficker, but Grasheim said he was unconcerned about the allegation because he said it was untrue. Sometime later, the secretary identified Castillo as the DEA agent investigating him. In September 1986, while in the United States on personal business, Grasheim heard that his house in El Salvador had been searched by the Salvadoran police. The police seized equipment and personal documents. When Grasheim returned from his trip, he heard that Castillo had

told the U.S. Milgroup that he was a drug dealer and a fugitive. But Grasheim said he was never charged with a crime or given a formal explanation for the search.

Grasheim said that, although he had an office at his residence in El Salvador, he spent a great deal of time at the Ilopango Airport. General Bustillo personally allowed Grasheim's personnel to use hangar three to install night combat equipment into the Salvadoran military helicopters. Grasheim was familiar with hangars four and five, but said he never went inside. He said those hangars were controlled by the CIA, which flew "classified" flights from them. Grasheim said the Contras allegedly had two planes at Ilopango, but they were not in hangars four or five. He said that he had never worked for the CIA, and had never heard the allegation that the CIA conspired with the Contras in distributing drugs. (In response to our request for information, the CIA OIG reported that there are no records indicating that Grasheim ever worked with the CIA.)

Grasheim said he was not aware of drugs being smuggled through the Ilopango Airport. He said that General Bustillo ran the Salvadoran Air Force with an "iron fist" and if drugs were being transported through the airport, Bustillo would have known.

Grasheim recalled that, on one of his trips to Miami in 1987, a clog in his fuel line had forced him to make an emergency landing outside of the Tamiami airport. Grasheim had immediately contacted United States Customs, requesting guidance, and was instructed to proceed to the airport. After an emergency landing at the Tamiami airport, he left everything in his plane except a large suitcase that contained business records and flight plans. At the airport, United States Customs informed him that a "lookout" had been placed on his airplane. Grasheim said that to his knowledge no one ever searched his person, his bags, or his plane.

Grasheim said he was not sure why the DEA targeted him for investigation, but he theorized three possibilities. First, he agreed that some of his activities were suspicious -- like the "crash landing" of his private plane in Miami and his frequent flights to and from the United States for business and personal reasons. Second, Grasheim theorized that the DEA may have been "led by the nose through the investigation by someone else" who wanted to divert attention from himself. Third, Grasheim said that the investigation might have been a result of his "high profile" in El Salvador.

### **c. Closing of the Grasheim case**

As noted above, on November 21, 1986, DEA Country Attache Stia wrote a report closing the Grasheim case and stating that the DEA would turn its information over to the U.S. Customs Service, for its review for possible criminal charges involving the weapons found at Grasheim's residence. We found no further report about this case in DEA files, from Castillo or anyone else.

Customs SA Richard Rivera told the OIG that the U.S. Customs Service never developed enough evidence to charge Grasheim with any offense, and its case on him was subsequently closed. The OIG obtained the Customs file on Grasheim. It did not contain any information on either the CIA or the

Contras.

## **2. Investigation of Carlos Amador**

Castillo's allegations about Ilopango also referred to a pilot named Carlos Amador, who also allegedly used Ilopango Airport for drug trafficking activities. Amador, who reportedly was born in Nicaragua but is a naturalized U.S. citizen, was allegedly involved in flying supplies for the Contras for several years. The following describes the DEA's information on Amador, as well as the CIA's involvement in this matter.

### **a. CIA information**

The first references that we found to Amador were contained in CIA files. A CIA cable in November 1984 states that Amador was a pilot for the Contra group ARDE, and he provided information to the CIA about another ARDE pilot who was fired for suspected involvement in "contraband smuggling."

According to a 1985 CIA cable, on February 2, 1985, another pilot arrived in Tegucigalpa, Honduras, to begin working with the FDN. On his way to Tegucigalpa, the other pilot stopped in El Salvador to provide information to the CIA Station on arms smuggling and drug-related flights. According to the CIA cable, the other pilot knew of the Station's interest in arms smuggling because he had overheard a conversation between Amador and the Station. The CIA cable stated that the other pilot and Amador had been very cooperative in El Salvador.

CIA records also reflect that the CIA had some information which suggested that Amador was involved in drug trafficking. In July and August 1985, the CIA Costa Rica Station reported in a cable to other CIA offices that the other pilot had suggested that Amador was a possible trafficker. According to a CIA cable, the other pilot's information was reportedly passed to the local Costa Rica DEA office, but we found no record of this in DEA's files.

### **b. DEA Information**

On August 27, 1985, DEA SA Sandalio Gonzalez, in the Costa Rica DEA Country Office, reported the receipt of intelligence from an informant that Amador was planning to fly two aircraft from Miami to Colombia for use in a drug smuggling operation. We asked Gonzalez about this report, but he did not recall anything about the report or Amador. He said that because the report was in a general file called air intelligence, this indicated to him that there was not enough specific information to begin an investigation on Amador.

On March 20, 1986, the DEA Costa Rica office reported that a source said that Amador was intending to fly an aircraft from Costa Rica through El Salvador to Miami with cocaine. The source reported that Amador was possibly picking up the cocaine at "Hangar No. 4" in San Salvador and that Amador had Salvadoran government identification that allowed him to operate freely in that country. The DEA in

Costa Rica sent the cable to the DEA in Guatemala requesting that it:

ask Salvadoran police to investigate Amador, and any person(s) and/or companies associated with Hangar No. 4 in San Salvador Intl Airport.[sic]

We located no specific written response from the DEA's Guatemala office to this cable. But it apparently generated some reaction by the CIA. On April 23, 1986, the Costa Rica CIA Station sent a cable to the El Salvador CIA Station describing Amador and the recent intelligence regarding his alleged trafficking activities, and noting the request that DEA planned to make of the San Salvador police.

On April 25, 1986 the El Salvador CIA Station responded by noting that Amador had stopped flying with the Contras in early 1985, had worked with the FDN in Honduras for a short period, and then had gone into private business. This cable went on to explain that Hangar 4 at Ilopango was the location of Contra operations, and that the El Salvador Station could assure that the only thing Amador and the other pilot had transported during their flights there was military supplies. The cable also noted that sources had reported that Amador was at times flying light aircraft from the United States and that the sources suspected that Amador was involved in narcotics. The cable also made the following request:

Based on that information, [El Salvador] Station would appreciate [Costa Rica] Station advising [DEA] not to make any inquiries to anyone re: hangar no. 4 at Ilopango since only legitimate [CIA] supported operations were conducted from this facility. FYI, . . . Station air operations moved from hangar no. 4 into hangar no. 5 which Station still occupies.

On June 10, 1986, the CIA's El Salvador Station wrote in a cable to the Costa Rica Station that an embassy officer in El Salvador, who was the local point of contact for the regional DEA officer, had recently requested any information that the CIA had on Amador. The El Salvador Embassy officer had said that the regional DEA official, who was not identified in the cable, had reported that Amador was suspected of being heavily involved in narcotics smuggling. According to this cable:

The Embassy officer said that if Amador is connected to [the CIA], [the DEA] will leave him alone, but if not they [the DEA] intend to go after him.

The El Salvador Station requested traces on Amador and guidance from CIA Headquarters in the event Amador was associated with the CIA.

Although the Station did not identify the "DEA regional official" in question, it likely was Stia, the DEA's Country Attache in Guatemala, the office which covered El Salvador, or Castillo, the DEA agent responsible for El Salvador. Castillo would not agree to be interviewed by the OIG, and Stia refused to be interviewed a second time, when we wanted to question him about these and other issues.

On June 11, 1986, the Costa Rica CIA Station wrote another cable noting that in November 1984

Amador had been a pilot for the ARDE, and that he was thereafter suspected of working as a pilot in a drug smuggling operation from Colombia to Miami.

On June 17, 1986, CIA Headquarters responded to the El Salvador Station with a cable stating that its records showed no CIA "association" with Amador.

Shortly thereafter, on June 23, 1986, Castillo reported in a debriefing report of a confidential informant in El Salvador, STG6, information about various alleged drug traffickers in El Salvador, including Amador. The informant had reported that Amador had identified himself to the informant as a "Contra Freedom Fighter" based in Miami. According to the informant, Amador allegedly used a Salvadoran military credential that allowed him to land at Ilopango without being searched by Customs. Amador was also reported to smuggle arms to Nicaragua and cocaine from El Salvador to Miami. The informant provided the tail numbers of aircraft flown by Amador and specific flights that had been flown by Amador in the previous several months. In his cable, Castillo requested NADDIS checks of the alleged drug traffickers and the aircraft listed in his report.

As noted in section C, on October 27, 1987, Castillo opened a case on Grasheim which described the information about his alleged drug trafficking activities at Ilopango Airport. In that case opening report, Castillo also referred to Amador and the March 20, 1986 request from the DEA office in Costa Rica to investigate intelligence information that Amador and others were using hangar four at Ilopango for the transportation of cocaine. Castillo stated in his report that he had spoken with the CIA's Assistant Chief of Station in El Salvador, who had denied that Amador had anything to do with the Station.<sup>(76)</sup> Castillo's report also stated that this Station official said that Amador was a known drug trafficker and had "obtained a U.S. visa with the help of an agency of the U.S. government in Salvador."<sup>(77)</sup> Castillo included Amador in the index to his report, stating that Amador was an alleged drug trafficker believed to be associated with the Contras. However, as we described above, Castillo's investigation was closed on November 21, 1986.

We located no further information concerning Amador in DEA files or FBI files. According to the DEA's NADDIS database, no case was ever initiated against Amador, and the DEA did not receive further information about him.

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74. To our knowledge, General Blandon is not related to Oscar Danilo Blandon.

75. Stia agreed to be interviewed by the OIG, but after this interview, when we attempted to contact him again to clarify various issues that had arisen in interviews of other people, Stia did not make himself available for a second interview.

76. According to the CIA OIG, the person at the Station in El Salvador who was likely the person Castillo referred to as the "Assistant Chief of Station" -- not actually a title used by the CIA -- had no

recollection of meeting with Castillo.

77. In a later memorandum, written in 1988, Castillo stated that it was revealed by the Consul General at the U.S. Embassy in El Salvador that an employee of the CIA had previously requested a U.S. visa for Amador a few years back.

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## **D. DEA Headquarters' Review of Allegations of Contra Drug Trafficking**

In early February 1987, Douglas Everett, Chief of Program and Policy in DEA's Intelligence Section, went to Central America to evaluate allegations linking various Nicaraguan political organizations to the drug trade. Everett reported to DEA management, for inclusion in a DEA response to a Congressional inquiry, that after meeting with personnel from the DEA, the Department of State, and the United States military, as well as various confidential informants in Central America, he could find no evidence to support allegations that either the Sandinistas or the Contras as entities were involved in drug trafficking to support their activities. He reported that although some individuals associated with these movements may have been involved in drug trafficking, there was no credible information indicating that the traffickers represented any political organization or were conducting their criminal activities on behalf of these groups.

Everett wrote in this report that the DEA's Guatemala office had recently closed an investigation based in El Salvador in which there had been allegations of Contra involvement -- an apparent reference to the Grasheim case. Everett reported that, according to initial informant information, individuals believed to be associated with the Contra movement at the Ilopango Airport were also engaged in cocaine and weapons smuggling. He reported that at no time, however, did any informant or Salvadoran official either see or seize drugs. Everett noted that the DEA Guatemala office believed that the informants had exaggerated their accounts of activities at Ilopango. He related that some of the informant reports appeared to have been based on the fact that, on occasion, people arriving at the airport would leave their plane carrying a briefcase and run to the military side of the airport before clearing customs. The informants assumed that the briefcases contained cocaine. Everett noted that, although the informants had reported drug activity in hangars four and five, those hangars were accessible only to military personnel and views from the outside were quite limited. Everett suggested that any smuggling activity at Ilopango was probably being conducted by Francisco Guirola-Beeche, who was connected to extreme right-wing political groups in El Salvador, not to any Nicaraguan political factions.

Everett reported that an anti-Sandinista informant had told him that Eden Pastora, the former leader of the ARDE, was involved in drug trafficking. The informant had complained that Pastora was making huge profits, but that none of the money was going to the Contra movement. The informant had related that Pastora, once a member of the Sandinista government, was now allied with Nicaraguan Minister of Interior Thomas Borge in drug trafficking activities, and was using cocaine laboratories in Nicaragua. The informant had claimed that, although Pastora and his associates had been totally corrupted by the drug trade, the Contras based in Honduras had not yet been.

Everett concluded by noting that allegations concerning Contra links to drug trafficking, although unsupported by any evidence he could find, would continue to surface because traffickers who had been arrested would try to avoid prosecution with claims of CIA authorization.

## **E. Castillo's Later Interaction with Salvadoran Personnel**

Several years later, information about drug trafficking at Ilopango Airport arose again. According to a cable from the U.S. Embassy in El Salvador to DEA Headquarters, dated January 3, 1989, Salvadoran General Bustillo met with Castillo on December 14, 1988 to discuss Bustillo's suspicions, based on information from some of his own officers, that Salvadoran Air Force officers were using Ilopango for drug trafficking. Castillo told Bustillo that the DEA had received similar information, but Castillo noted that DEA lacked hard evidence because it had not been able to work at Ilopango. Pressed by Bustillo for names of those suspected by the DEA of drug trafficking at Ilopango, Castillo named, among others, Air School Director Lieutenant Colonel Manfredo Koenigsberg.

According to the State Department cable, Bustillo said he would do a thorough investigation of narcotics-related activity at Ilopango and also seek to transfer LTC Koenigsberg out of the air force as part of normal rotations. Bustillo took this allegation relating to Koenigsberg and narcotics trafficking to Minister of Defense General Vides Casanova. When General Vides confronted Koenigsberg, he denied all charges and demanded to know the evidence against him. Bustillo was called in and asked to provide proof of the allegations. He was unable to provide any, other than rumors and the information from Castillo. To back up his charge, Bustillo asked the U.S. Embassy for whatever evidence the U.S. Government had regarding the involvement of Koenigsberg in drug trafficking. The Embassy reported that Castillo had given Bustillo the impression that the DEA was prepared to provide assistance to the Salvadorans, including the assignment of DEA personnel to investigate drug trafficking at Ilopango.

The Embassy endeavored to give Bustillo the support he needed. Its cable noted: "In view of Castillo's remarks to Bustillo, Embassy assumes that DEA must have some concrete evidence (even if it is not up to judicial standards) to support that charge the Air Force officers, including LTC Koenigsberg, are involved in drug trafficking." The Embassy asked DEA: "Please inform Embassy ASAP basis of SA Castillo comments." The Embassy also asked DEA to develop a plan to help the Salvadoran Air Force deal with the drug problem at Ilopango, but it made clear that the plan was not to be discussed with the Salvadorans until it had been cleared by the Embassy. The Embassy noted its concern that "General Bustillo, a very senior player in the Salvadoran political/military equation, has come to offer his cooperation on the drug problem, and we have made commitments to him that we will be unable to fulfill."

In February 1989, the CIA Station in El Salvador sent a cable to the DEA with additional information indicating that the Panamanian Miguel Antonio Rodriguez, a suspected drug trafficker, was using Ilopango to repair his aircraft; this seemed suspicious because of the high cost of repairs in El Salvador.

According to a memorandum that DEA Guatemala Country Attache Stia later sent to DEA Headquarters, Castillo and DEA Group Supervisor Thomas deTriquet had thereafter gone to El Salvador to investigate this matter, but had been told by a CIA officer that they could not enter Ilopango to do so. When asked how the DEA was supposed to investigate it, the CIA officer said it was not necessary, because the CIA had already given the DEA the tail numbers of aircraft and the names of the people involved. Stia's cable to DEA Headquarters noted:



On the surface, it would appear as the Station in San Salvador has taken a more active stance in providing drug information to DEA and relations continue to be good. The fact remains, however, that Guatemala DEA cannot develop the most important information, that relating to those allegations and intelligence in regards to Ilopango Air Force Base. It is [my] intention to have GS deTriquet and SA Castillo meet again with General Bustillo and request access once again. The results of that meeting will "tell the story."

Stia also noted in his report that, in March 1989, a confidential source had relayed information from a subsource close to Salvadoran Air Force officers at Ilopango. The subsource was at a party of officers when the subject of General Bustillo's drug investigation had come up. An officer had declared that the whole investigation was a ploy to throw the DEA off the trail while the Salvadoran Air Force and the CIA ran large shipments of cocaine through the air bases at La Union and San Miguel in El Salvador for the purpose of obtaining money for the Contras. (Our search of DEA files found no additional information concerning this allegation.)

Stia's cable went on to report that a complicating factor in the DEA's investigation was the hostility of some Embassy personnel toward Castillo, who had gained a reputation as a man who is always "digging up things." As a result, the Deputy Ambassador had placed "stringent controls" on the procedures for Castillo's "Country Clearance," requiring advance notice whenever he traveled to El Salvador. Stia also imposed "more stringent reporting procedures" on Castillo.

We found no additional cables describing the results of this investigation or deTriquet's and Castillo's attempts to gain access to Ilopango. DeTriquet told the OIG what he recalled happening, however. He explained that he had been detailed to Guatemala in 1989, and while he was there, a reliable informant had told Stia that unidentified drug dealers were transporting cocaine through hangar five at the Ilopango air base in El Salvador, using pilots associated with the Contras. DeTriquet said that he and Castillo traveled to El Salvador to investigate the allegation. They did not have a problem getting on the military side of the air base, but a Salvadoran security officer had denied them access to hangar five, which deTriquet believed contained CIA equipment. DeTriquet noted that he and Castillo had not identified themselves as DEA agents, but had tried a ruse to gain access, which had been unsuccessful. DeTriquet and Castillo had then gone to the U.S. Embassy, where the CIA Chief of Station (COS) assured them that there was no drug activity associated with hangar five. After speaking with the COS, they had not pursued the allegation any further. Castillo went back to Guatemala, and deTriquet stayed in El Salvador for approximately three months working with the Salvadoran police to assess if the DEA needed to establish an office there. During these three months, the allegation of drug activity at the Ilopango air base never resurfaced. He said, despite the cable from Stia, he recalled no further meetings with Bustillo.

DeTriquet said that in 1992 the DEA opened an office in El Salvador, and he became the DEA Country Attache in that office from 1992 until 1995. DeTriquet said that while he was assigned to El Salvador, he never received information that the Contras or the CIA were involved in drug activity.

He speculated that perhaps some of the Contra pilots had taken advantage of a situation and become

involved in drug activity, but stated that he did not believe that either the Contras or the CIA had any such involvement. He said that he had never received pressure from the CIA in any way concerning a DEA investigation.

## **F. OIG Interviews of other DEA and Embassy Personnel**

We also interviewed other DEA personnel who were in the Guatemala office with Castillo, and other U. S. Embassy personnel, concerning his allegations about drug trafficking on behalf of the Contras and the CIA. DEA Special Agent Russell Reina worked in the DEA's Guatemala Office from 1982 until 1986. He first met Castillo when he arrived at the office in 1986. At the time, the office had only two agents -- Reina and Castillo -- and the Country Attache, Stia. The office covered four countries: Belize, Honduras, Guatemala, and El Salvador. Reina had handled all four countries prior to Castillo's arrival. Castillo was assigned responsibility for Guatemala and El Salvador when he started in 1986.

Reina said that he and Castillo occasionally worked together, but because of the shortage of personnel assigned to the office, each usually worked alone in his assigned areas. Reina said he did become familiar with Castillo's style. He noted that Castillo was quick to jump to conclusions before conducting an adequate investigation, and that Castillo treated the leaders of foreign governments with disrespect.

Reina recalled hearing from Castillo that the Salvadoran government had been enthusiastic about Castillo's investigation of Grasheim, but Castillo later became annoyed as Salvadoran interest declined. Reina was aware that Grasheim was an American citizen living in El Salvador, but Reina had no knowledge that Grasheim had any affiliation with the CIA or the Contra movement. Reina monitored some of the air traffic at Ilopango, running the tail numbers of small airplanes through the DEA El Paso Intelligence Center (EPIC), and he recalled that some of the planes had been registered at EPIC for possible drug involvement. However, he said he did not recall being told by anyone, including Castillo, that the airport was being used to transport drugs.

Reina said that while he was stationed in Guatemala City, he never worked any cases jointly with the CIA, but on at least one occasion, he shared an informant with the CIA. Reina said he and other DEA agents assigned to the Guatemala DEA office met regularly with other U.S. government officials, including representatives from the State Department and the CIA, to discuss drug activity in Central America. He said that no one ever asked him to back off of any investigation.

Reina recalled that Stia, the DEA Country Attache in Guatemala, went out of his way to assist Castillo even after allegations of unprofessional conduct had surfaced against Castillo, and that Stia was always supportive of Castillo. Although Reina was not personally aware of allegations that the CIA had asked Stia to back off the Grasheim investigation, Reina heard from an informant that Castillo had told the informant that the CIA had asked Stia to back off the investigation. Reina said the informant did not cite a reason for the request by the CIA.

DEA Special Agent Larry Holifield worked in the DEA's Guatemala Country office from January 1988

until 1992. Holifield recalled that Castillo had told him that the CIA and the Contras were involved in the drug trade to raise money for the Contras, but Castillo had never provided any proof to substantiate this claim. Holifield said that Castillo often made allegations without adequate proof on a range of matters. Holifield also noted that he was the controlling agent for STG6 in 1991, and that this informant had never indicated that the Contra resupply operation or the CIA were involved in illicit drug distribution. Holifield also recalled that Stia and Castillo had a good working relationship, and that Stia went out of his way to help Castillo. Holifield also said that the CIA had never asked him to back off of any investigations, and that he was not aware of Stia's being asked to do so either.

DEA Special Agent Delphin Von Briesen told the OIG that he had worked in the Guatemala DEA office from February 1988 until April 1992. Although he had not been involved in the Grasheim case, he recalled Castillo's allegations that Grasheim was running drugs and weapons for the Contras. He said that Castillo had not seemed particularly concerned when the raid on Grasheim's house turned up only a small amount of drugs. Von Briesen said, "frankly speaking, the Grasheim case was not considered a big case." Von Briesen may have heard that small aircraft pilots and couriers used the Ilopango Airport to transport drugs, but he never received any specific information to suggest a large amount of drugs were being transported. No one -- including informant STG6, with whom Von Briesen worked -- ever suggested to him that hangars four and five were being used to transport drugs or that the CIA or the Contra resupply operation at Ilopango was smuggling drugs into the United States to raise money for the Contras. Castillo would often assert his general belief that the Contras were involved in drug smuggling, but never offered any basis for that belief. Von Briesen said he heard the allegation concerning the CIA and the Contra drug involvement only after reading Castillo's book, which he said definitely embellished facts about which Von Briesen had personal knowledge.

Von Briesen said he had never been asked by the CIA to back off of any investigation, and that the CIA had actually provided information that resulted in some of the drug seizures by the DEA's Guatemala office. Von Briesen believed that the DEA and the CIA had a good working relationship, and said he was never aware of the CIA's interfering in any of the DEA's investigations.

John Martsh, now retired from the DEA, was the Chief of International Programs for Latin America at DEA Headquarters in the mid- to late-1980s. When interviewed by the OIG, Martsh could not recall any specific allegations concerning the CIA or the Contras. However, he noted that he had not been responsible for daily oversight of activity in Latin American countries, which was the job of staff coordinators working under him. On Martsh's only trip to Guatemala during this period, no one mentioned any allegations of a tie between the CIA or the Contras and drug trafficking.

Janice Elmore, now the State Department's Political Military Advisor at the U.S. Embassy in Sarajevo, was the narcotics coordinator at the U.S. Embassy in El Salvador from 1986 until 1990. She told the OIG that, while assigned to the Embassy in El Salvador, she monitored the narcotics unit of the Salvadoran police department and gathered narcotics intelligence information from U.S. law enforcement agencies operating in El Salvador. Castillo briefed her on several occasions concerning drugs in El Salvador, and made general allegations that the Contras were involved in narcotics trafficking. But he never gave her any specific information detailing trafficking patterns or specific

individuals who may have been involved in trafficking, and she had never heard these allegations from anyone else. Elmore recalled that Castillo had often made allegations that later proved to be without merit. She noted that it had been rumored that some of the Salvadoran military pilots were involved in drug trafficking, but that no evidence had been developed to substantiate that rumor. Elmore said that Castillo never suggested that the CIA and the Contras were conspiring to traffic in drugs, or that he had received pressure from anyone to prematurely close his investigation into the alleged trafficking at Ilopango.

The OIG also interviewed an officer from the CIA Station in El Salvador, who worked at the Station from 1986 until 1988. Previously, he was assigned to Guatemala. He recalled being introduced to Castillo by SA Reina sometime after Castillo's arrival in Guatemala. He stated that Castillo had never mentioned anything to him about drug trafficking involving the Contras. He characterized the allegations of CIA and Contra drug trafficking as "pure bullshit." He noted that occasional drug trafficking may have been occurring without his knowledge, but not through "official channels." He said he had "absolutely no knowledge" of drug activities by the Contras and officials of the U.S. government, and that, if he had any, he would have immediately reported it to his superiors, and then to the FBI if necessary. He said that he knew the CIA Chief of Station well enough to know that he also would have immediately acted on any such information, had he received it.

The CIA Chief of Station in El Salvador in 1986 refused to be interviewed by the CIA OIG or by us.

### **G. Castillo's Allegation regarding a CIA employee**

Castillo has alleged that a CIA officer told him that the only way the Contras could fund their military operations was to sell drugs, and that the CIA employee asked him to halt his drug investigation at Ilopango.

When interviewed by the OIG, the CIA employee flatly denied both of these claims. He said that he was a CIA officer in Guatemala from 1985 until 1988, and, in that capacity, made a number of trips to Ilopango. He said that he had not been aware of any drug trafficking by Contra pilots at the airport. He recalled that Castillo had informed him that he was investigating drug activity at the Ilopango Airport, but Castillo had never mentioned any subjects, and had never discussed any issues relating to the Contras.

### **H. Castillo's Allegation Regarding the CIA's use of informant STG6**

Castillo has alleged that the CIA took away the informant -- STG6 -- whom he was using in connection with his investigation into Contra drug trafficking at Ilopango in order to obstruct that investigation.

Although Castillo's refusal to be interviewed makes it impossible to be sure, it appears that STG6 was passed on to Castillo by Robert Calves, a Foreign Service Officer (now retired) who was Consul General in El Salvador during the mid-1980s. When interviewed by the OIG, Calves recalled that he developed

an informant who had assisted him in closing down a Chinese smuggling ring operating out of Ilopango Airport, and that he had put the informant in contact with Castillo when the informant discussed allegations of drug trafficking at the airport. One day, after the informant had begun working with Castillo, the informant visited Calves and said that "your people" were involved in drug smuggling. Calves was unsure whether the informant had been referring to U.S. military personnel or other U.S. personnel. Castillo later informed Calves that the informant had related the same information to him, but the informant had also announced that he could not work with Castillo any longer. Castillo said that he suspected that the informant had been paid by the CIA not to work with the DEA any more.

When interviewed by the OIG, Country Attache Stia recalled being asked by the CIA Station Chief in El Salvador to relinquish use of informant STG6. The Station Chief had explained that the CIA had established the informant before he had ever worked for the DEA. Because STG6 had neither provided any information resulting in a substantial seizure of drugs or property, nor had given any reason to believe that he had the immediate potential to do so, Stia honored the Chief of Station's request. Stia noted that had STG6 been active, he would not have deactivated him. Further, Stia said if there had been a conflict between the DEA and the CIA concerning an informant, the ultimate decision would be decided by the administrators of the two agencies. Stia added that after the CIA stopped using the informant, the DEA reestablished him. Stia said that Castillo never expressed displeasure to Stia about the loss of STG6.

Stia's testimony concerning the use of STG6 is corroborated by available DEA records, which reflect that in December 1987, the CIA asked the DEA to stop using STG6 because he was currently a CIA informant. STG6 was later reactivated by the DEA in 1989, after the CIA relinquished use of him. He continued providing information to the DEA about drug trafficking by pilots using Ilopango, although the reports did not indicate that they were Contra pilots. Reports in his DEA file reference planned undercover purchases from the Contra pilots, but the files did not indicate that any occurred.

However, despite Stia's claim to us that there was no conflict about the use of STG6, his April 13, 1989 memorandum to DEA Headquarters states that a "valuable asset (CI) was denied [DEA Guatemala office] at Ilopango" which was an apparent reference to STG6.

The CIA OIG has informed the OIG that the CIA officer who handled STG6 refused to be interviewed by the CIA OIG. The Chief of Station in El Salvador also declined to be interviewed.

Although Castillo may have had reason to feel aggrieved at the loss (albeit temporary) of an informant, we did not find that the CIA asserted its authority over the use of STG6 in order to obstruct Castillo's inquiries at Ilopango, particularly since the informant was subsequently turned over to the DEA.

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## I. Castillo's Recent List of Relevant Files

In October 1996, Castillo appeared at the DEA Headquarters in Alexandria, Virginia in an effort to gain attention for his allegations of CIA involvement in Contra drug trafficking. He had with him a list of cases that he asserted would support his allegation that the DEA turned a deaf ear to drug investigations that linked the CIA and the Contras to trafficking. He provided this list to the DEA, who provided it to us. We requested from the DEA the case files contained on Castillo's list, but few of them mentioned the Contras:[\(78\)](#)

1. DEA case #TG-87-0003: This was a case that Castillo opened on October 27, 1986 on Walter Grasheim, discussed above.
2. DEA case #GFTF-86-9999: This file, entitled "Air Intelligence," documented various incidents involving light aircraft in Ilopango and elsewhere suspected of involvement in trafficking. Such items as tail numbers, colors and marking of planes are reflected in the file. A DEA cable dated March 20, 1986, discussed above, related informant information indicating that Carlos Amador was smuggling cocaine into the United States. Another unrelated cable in this file, dated April 24, 1986, reported that the Costa Rica DEA office had been contacted by Costa Rica's National Security Agency, seeking information on a plane that might have transported Nicaraguan Contra leader Adolfo Jose Chamarro Cesar, who the Costa Rican authorities suspected might have been involved in smuggling narcotics to the United States. The DEA El Paso Intelligence Center reported the next day that a check of its indices found no information on Chamarro Cesar.
3. DEA case #GFTG-86-9999: This general file, also entitled "Air Intelligence," contained various reports of aircraft seizures, crashes, and sales. One of the cables in this file was Castillo's June 23, 1986 report regarding Amador, which we discussed above.
4. DEA case #GFTG-85-9999: This general case file documented various incidents involving light aircraft suspected of involvement in drug trafficking at Ilopango and elsewhere. The file makes no mention of the Contras or of any CIA involvement with drug trafficking.
5. DEA case #GFTG-86-9152: This file, entitled "Guatemala," appeared to have been a catch-all file for many unrelated, one-time events that took place in Guatemala. The file makes no mention of the Contras or of any CIA involvement with drug trafficking.
6. DEA case #GFTF-86-4003: This file was entitled "Fruveticos," the name of a company that exported frozen fruit and vegetables from Costa Rica. In this file, it was reported that the company was buying products at above market rates, then disposing of the perishable products in Miami. In one shipment of frozen yucca, American agents had found over 400

pounds of cocaine. This file also contained several documents discussed above, concerning Amador, including the August 27, 1985, debriefing report by Sandalio Gonzalez of an informant who provided information about Amador's alleged plan to fly aircraft to Colombia for use in drug smuggling, and the March 20, 1986 cable discussing Amador's alleged plan to smuggle cocaine into the United States. Another cable in this file, dated February 4, 1986, mentioned that the DEA Costa Rica office was investigating Gerardo Duran and Jorge Morales for shipping cocaine through Costa Rica. (Information about Duran and Morales is discussed in Chapter XI of this report.)

7. DEA case #TG-86-0001: This file detailed the activities of the Pozo-Aparicio organization, said to have transported hundreds of kilograms of cocaine from Colombia to Los Angeles in 1984 and 1986. The cocaine was usually smuggled in stolen vehicles in which hidden compartments had been installed. The head of this organization, a Colombian, had said that he shipped cocaine to a person in El Salvador, and that the cocaine was delivered to a Colombian national who resided in Los Angeles. This case was closed on September 21, 1987, after 20 people were arrested and 92 kilograms of cocaine seized. The file makes no mention of the Contras or of any CIA involvement with drug trafficking.

8. DEA case #TG-87-0001: This file details trafficking activity by Jaime Bermudez Botero and others in Guatemala and Mexico, but contains no mention of Contra or CIA involvement in drug trafficking.

9. DEA case #GFTG-83-4010: This file relates to alleged trafficking by Carlos Enriquez Ordonez, who, according to an informant, was smuggling cocaine from Guatemala to Los Angeles. On December 12, 1985, Castillo met Ordonez in an undercover capacity, and Ordonez told of making several trips a month as a cocaine and money courier. Ordonez also informed Castillo that he had some United States Customs officials on his payroll in Los Angeles. There is no mention of Contras or any CIA involvement with drug trafficking in this file.

10. DEA Case #GFTG-86-999: This file could not be located by the DEA. However, it appears to be a general air intelligence file from Mazatlan, Mexico.

The OIG also reviewed the files of the informants who Castillo included on the list that he gave to the DEA:

1. DEA CI file #STG-86-0005: This informant was a restricted use source informant because of his felony convictions. He was activated on May 17, 1986 and deactivated on October 30, 1987. The file contains no mention of Contra or CIA involvement with drug trafficking. It does mention an allegation from the informant that the government of Nicaragua, or factions of it, were involved in the transport of cocaine to the United States

in 1987.

2. DEA CI file #STG-86-0006: This informant was established on June 6, 1986, and was Castillo's main source in the Grasheim case. In addition to the references to the Grasheim and Amador cases, the file also includes information relating to alleged drug trafficking by pilots at Ilopango that is not specifically tied to the Contras. The use of this informant is discussed more fully above.

3. DEA CI file #STG-86-0002: This informant was established on February 10, 1986, and deactivated in November 1989. The file makes no mention of any involvement with the Contras or the CIA.

4. DEA CI file #STG-81-0013: This informant, a Guatemalan citizen, is referred to above in the Grasheim case. He was originally activated in 1974 by the DEA's San Francisco Field Division, but was deactivated for refusing to testify in a case. He was reestablished as an informant in 1975, but was soon deactivated again, this time for using his cooperation with the DEA to cover up his own drug activities. When he was indicted on federal charges in 1979, he fled from the United States. Because he was a Guatemala citizen, the Guatemalan government would not extradite him to the United States.

In September 1981, the DEA's Guatemala office reestablished him as an informant yet again, after making clear that no deals would be made regarding the pending charges, but that any cooperation would be made known to United States authorities. Ultimately, this informant proved valuable to the Guatemala office, which later asked that the charges against him in the United States be dismissed. The file does not indicate whether the charges were actually dismissed. However, the informant was used on and off throughout the 1980s and 1990s by the Guatemala DEA office.

This informant was one of the two mentioned by Castillo in his October 27, 1986 case opening report on Grasheim. As noted above, this informant provided the information about Grasheim that led to the September 1, 1986 search of his house.

On June 20, 1997, in the letter to the OIG in which he declined to be interviewed, Castillo also suggested "leads" that the OIG could follow. These leads included the DEA file on Grasheim; documents held by the National Archives from the "Iran-Contra file" on Grasheim; the DEA investigative and informant files that Castillo had referred to in the list he gave to the DEA in 1996; and various United States Embassy and other personnel in El Salvador who Castillo alleged knew of Contra-CIA drug trafficking.

The OIG attempted to interview all of the DOJ personnel on Castillo's list, as well as many of the others. None of them verified Castillo's broad claims about CIA involvement in Contra drug trafficking. In addition to many of the individuals whose accounts have already been discussed above, DEA SA Jack



O'Conner, the DEA's Desk Officer for Latin America from 1985 until 1988, was on Castillo's list. O'Conner was responsible for monitoring drug activities in Colombia, Peru, Bolivia, and Panama. O'Conner told us that he knew of Castillo's allegations through the media, but said he had no personal knowledge relating to them. Indeed, O'Conner recalled little more about Castillo than the fact that he had seen Castillo's name on a DEA roster.

Frank Torillo, Associate Special Agent in Charge, DEA Miami, told the OIG that Castillo was wrong to suggest that Torillo had information concerning drug activity by the Contras or the CIA. Torillo worked at DEA Headquarters between 1984 and 1990, but never worked on a foreign desk. Torillo noted that he had been an Assistant Special Agent in Charge in the New York Field Division when Castillo was there in 1984, and recalled Castillo as a good agent. But he had not spoken with Castillo since 1985.

## **J. Allegation that the DEA Retaliated Against Castillo**

In December 1991, the DEA formally moved to remove Castillo from his position as a DEA criminal investigator. The letter cited six violations allegedly committed by Castillo. The charges were as follows:

1. Misappropriation of the Property of Others. A DEA source reported that Castillo had asked for \$25,000 to give to the special forces in Guatemala. The source said he gave Castillo the \$25,000, but Castillo later said that the source had given him only \$10,000. After an investigation, the DEA Office of Professional Responsibility found that Castillo failed to follow the requirements for processing money, delayed in reporting the surrendered money (approximately five months), failed to report the surrender of the money in the proper file (the informant file rather than subject file), and failed to fully advise his immediate supervisor of the circumstances surrounding the acquisition of the funds, which supported the source's allegation that Castillo had misappropriated \$15,000.
2. Misappropriation of Government Property. This charge alleged that Castillo had tried to sell a DEA radio for \$15,000 to the same source as mentioned in the first charge.
3. Receiving/Soliciting Gifts. This charge alleged that Castillo had improperly accepted a fully automatic MAC-10 machine gun from a confidential source, and had disregarded his supervisor's order to get rid of it.
4. Violations of Regulations relating to the Export and Sale of Firearms. Federal law and applicable regulations forbid the export of military firearms overseas without a license, except for items intended for official use by federal agencies or furnished to foreign governments. Castillo was alleged to have sold a .45 caliber pistol and a Mossberg 12-gauge shotgun to an informant, for \$3,000 and \$5,000, respectively.
5. Failure to Follow Written Instructions. This charge alleged that Castillo had possessed

and maintained two fully automatic weapons, an AR-15 and MAC-10, contrary to DEA regulations.

6. Making a false statement. This charge was based on Castillo's claim to the DEA that he had not known that the purchaser of the .45 caliber weapon was an informant.

Castillo denied the charges, claimed that they were only administrative in nature, and alleged they were brought in retaliation for his investigations of alleged Contra and CIA drug trafficking. The charges were not finally resolved, however, because in 1992, in lieu of the removal from his position that had been proposed by the DEA based on its assessment of the evidence in support of the charges, Castillo accepted a disability retirement from the DEA because of a stress-related disorder. It was beyond the scope of our review to determine the validity of these charges or whether Castillo's claims of retaliation had any merit.

## **K. Castillo and the Office of Independent Counsel**

As noted above, Castillo refused to be interviewed by the OIG except under certain unacceptable conditions, and his refusal made it difficult to assess his claims fully. However, Castillo was interviewed by the FBI Special agent Michael Foster in 1991, in connection with the Iran-Contra Office of Independent Counsel investigation. That interview did not focus directly on all of the issues discussed above, but did provide some important details as to Castillo's claims.

According to Foster's report of the interview, Castillo said that shortly after arriving in Guatemala he received a cable from the DEA's Costa Rica office requesting that he check on the private supply hangars at Ilopango for drugs. Castillo started running the names of the pilots who were supplying the Contras with supplies through the DEA computer and found that they were listed as suspected drug traffickers. Castillo went to Ilopango and did "some checking around." While he did not find any drugs there, he suspected that there was drug activity taking place among the resupply personnel. Castillo said he had informants who were supplying him with information about drug activity at Ilopango.

Castillo also told Foster that he believed that Oliver North and the resupply operation at Ilopango were running drugs to raise money for the Contras.

Regarding Grasheim, Castillo said that he heard reports from the DEA and others that Grasheim was involved in the drug activity at Ilopango. Castillo, who had trained the narcotics unit of the Salvadoran National Police, stated that he heard from that unit that it had targeted Grasheim "for a bust." Castillo told several officials at the U.S. Embassy about the proposed bust of Grasheim, including the CIA Chief of Station in El Salvador, but they said they did not know him. The only one who knew Grasheim was the Commander of U.S. Milgroup in El Salvador, James Steele, who said that he knew Grasheim but they had "had a falling out." No further details about this falling out were provided in the report.

Castillo stated that he then went to Ambassador Corr to inform him about the proposed bust of Grasheim

and the suspected drug activity at the "CIA Hangar at Ilopango." According to Foster's report, Castillo did not make any distinction between the private resupply hangar and the CIA hangar. Corr told Castillo there was a covert operation at Ilopango concerning the Contras. But Castillo told Foster that neither Corr nor any of the United States Government officials with whom Castillo spoke objected to the bust or tried to influence Castillo about it.

Castillo said he called the Salvadoran narcotics unit and told them to go forward. Castillo was not present at the raid of Grasheim's house, but the next day saw the items that were seized, including large caches of weapons, explosives, and about a pound of marijuana. Castillo also had several of Grasheim's identification cards that were seized during the raid, including Grasheim's U.S. Embassy identification, which he showed to Foster.

Castillo told Foster that after the raid, Castillo met with Corr several times and kept him informed of the investigation of Grasheim. Corr told Castillo that Grasheim had come to Corr and said he wanted all the items back that had been seized from his house. According to Castillo, Grasheim also told Corr that "If I go down, half your Mil Group will go down with me." Castillo believed that Grasheim "was talking about Contra resupply activity by the Mil Group." Castillo claimed that he said to Corr that this was going to happen, "that there were big problems at Ilopango." Corr responded, according to Castillo, "Let the chips fall where they may."

Castillo added that the narcotics unit of the Salvadoran police tried to "bust" the houses where the resupply pilots lived, but the houses had "already been cleaned out." Castillo told Foster, "Everyone thought that the CIA had cleaned out the houses."

Castillo said that he did not have much access to Ilopango because General Bustillo, the CIA, and the resupply people all knew he was nosing around and investigating their activities, and they did not cooperate with him.

Castillo said that an informant had provided information to him. When the local CIA office found out that Castillo was using this person as an informant, the CIA allegedly took him over and would not let him use this person anymore.

When we interviewed him, Foster told us that, although many people who had worked or were somehow involved with the Ilopango Airport were interviewed during the investigation by the Office of Independent Counsel (OIC), no one other than Castillo had alleged drug involvement by the CIA or the Contras at Ilopango. Foster emphasized, however, that in his judgement a full investigation of that issue was not conducted by the OIC.

But Foster said that he did not think that Castillo was a credible witness because, after setting out his own limited direct knowledge, he would proceed to make generalizations that people "had to have known" that other people had drug involvement.

This assessment by Foster to us was consistent with his evaluation of Castillo at the time of the 1991 interview. Foster wrote then, after the interview, that in his view Castillo made snap judgments which often were not substantiated. Foster explained in his report:

For example, everyone he sees in El Salvador and can't explain is automatically lumped into a group of covert operatives involved in every kind of secretive or illegal activity. He claims everyone knows everything, but he can't articulate it. He makes general accusations, but when I try to pin him down, he can't provide specific information that would support his conclusions.

## **L. OIG's Evaluation of Castillo's Allegations**

It is difficult to evaluate Castillo's allegations completely and with confidence because of the general nature of many of them, because of the passage of time since the events in question, and because of his and others' refusal to be interviewed by us.

From our review of the files and our interviews, it appears that some of his allegations have a kernel of factual truth to them. For example, it is clear that there were sensitive covert operations being conducted at Ilopango Airport, and we have no doubt that the CIA and the U.S. Embassy were not anxious for the DEA to pursue its investigation at the airport. The DEA's investigation of drug trafficking activities at Ilopango was closed in 1986, perhaps with the intervention of the U.S. Embassy. Moreover, as reflected in the CIA's cables in the Amador case, the CIA requested that the DEA not investigate its operations at Ilopango, and the CIA vouched that they were legitimate CIA-supported operations.

It is also clear that there was intelligence, although not hard evidence, that some Contra resupply pilots were trafficking in drugs, and that Castillo made that information available to the DEA, as he states.

But the conclusions that Castillo draws from these facts, and his broad claims about a conspiracy to smuggle drugs by the CIA and the Contras and to obstruct his investigation are not supported. The DEA did not have any hard evidence to substantiate the charges at Ilopango, and the search warrant on Grasheim's house did not find evidence of drug trafficking activities. Moreover, as reflected in Castillo's own report, Ambassador Corr said the DEA could investigate Castillo's claims about drug trafficking at Ilopango, but Corr requested that it be discreet. In addition, we did not find proof that the CIA or the Embassy wanted the DEA to stay away from Ilopango because the CIA was involved in, or knew about, drug trafficking there, as opposed to the CIA not wanting the DEA involved in any investigation that would expose sensitive, covert operations.

Castillo was also correct that the DEA was asked by the CIA to stop using an informant, STG6. But there is no evidence that the CIA made this request for any reason other than that it wanted to use the informant. After the informant's use by the CIA, he was reactivated by the DEA.

Nor do we find substantiation for Castillo's allegation that the CIA employee told Castillo that the only way the Contras could fund their operation was to sell drugs and asked him to stop investigating

Ilopango. The CIA employee flatly denied this claim.

Our view of Castillo's allegations was much in line with what Foster wrote after he interviewed Castillo in 1991: that Castillo was quick to jump to conclusions based on limited knowledge and little hard evidence, and the evidence Castillo did advance did not corroborate his broad assertions. Castillo's list of relevant files did not support his broad claims of Contra and CIA ties to drug trafficking, and the individuals we contacted about him, including his colleagues in Guatemala, also did not corroborate his claims. Several of his colleagues confirmed that Castillo has a tendency to make allegations without adequate evidence; some have stated that they did not find him to be trustworthy in his claims.

But our conclusions about Castillo's allegations do not rely upon general impressions about his credibility. Rather, although some of his claims have a seed of truth behind them, the inferences he draws, and his core claims about CIA support for Contra drug trafficking, were not substantiated by our review.

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78. We located no reports in the files mentioning the Contras specifically, other than the ones we have discussed above. Although some others mention aircraft and pilots using Ilopango, it is difficult without an interview of Castillo to pin down precisely what he alleges happened in these cases or how they relate specifically to his claims about CIA and Contra drug trafficking.

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## **Chapter XI: DEA's Response to Information About Contra Drug Trafficking And Miscellaneous Cases**

### **A. Introduction**

In this section, we examine the degree to which the CIA passed on to the DEA information and allegations on drug trafficking by Contras or Contra sympathizers, and the manner in which the DEA responded to such information. We also examine the information the DEA received from sources other than the CIA about Contra drug trafficking and what the DEA did to pursue these leads.

### **B. General Relationship between DEA and CIA During the Period of the Contra Revolution**

#### **1. Headquarters Level**

CIA Headquarters and DEA's Intelligence Division at DEA Headquarters periodically exchanged information regarding drug trafficking in foreign countries. The information exchanged was, for the most part, of a general nature: the CIA would, for example, tell the Intelligence Division that it had information that opium production had soared in a particular country, and the DEA would tell the CIA about drug-related terrorism or violence abroad. Occasionally, CIA gave the Intelligence Division information about specific people suspected of drug trafficking. That information is discussed in section D, below.

On occasion, the CIA asked the Intelligence Division if the DEA was investigating a particular person because the CIA was considering using that person as an asset or contractor in a covert operation. In 1986 or 1987, the CIA began asking if the DEA had any "derogatory information" on pilots the CIA was considering using in its operations to aid the Contras. When the Intelligence Division received those requests, it conducted NADDIS searches and reported the results to the CIA.

According to the DEA, the CIA has been sharing drug intelligence with the DEA since it was given a drug intelligence mandate in the early 1970s. Initially, these reports most often focused on trends in drug cultivation, production or trafficking abroad. As the CIA has increased its focus on the drug issue, it has begun to provide information on drug organizations to the DEA to assist with its drug investigations.

In response to Congressional inquiries, the DEA and the CIA prepared a joint assessment of possible illicit drug activity by anti-Sandinista groups in 1987. That assessment is discussed throughout this chapter.

#### **2. The 1982 Memorandum of Understanding Between the CIA and the Department of Justice Regarding Crimes Reporting**

In 1982, pursuant to 28 U.S.C. Section 535 and Executive Order 12333, the CIA and DOJ entered into a

Memorandum of Understanding entitled "Reporting and Use of Information Concerning Federal Crimes" (1982 MOU). The 1982 MOU set forth "procedures govern[ing] the reporting of information concerning possible federal crimes to the Attorney General and to federal investigative agencies acquired by agencies within the intelligence community in the course of their functions." It provided:

When [the CIA] has received allegations, complaints or information tending to show that an employee of [the CIA] may have violated any federal criminal statute, or another person may have violated [certain statutes listed later in the 1982 MOU], . . . the [CIA] shall within a reasonable period of time determine through a preliminary inquiry whether or not there is any basis to the allegations (that is, are clearly not frivolous or false). If the allegations cannot be established as without basis, [the information must be reported to DOJ via the procedures set forth later in the MOU].

The 1982 MOU was unclear on two critical issues. First, by defining "employee" as a "staff employee or contract employee" (which, for these purposes included former staff or contract employees), it left open whether the CIA was obliged to pass on information regarding criminal activities of "assets" or paid informants.<sup>(79)</sup> Second, in the list of crimes that the CIA was obliged to pass on information about even when a non-employee was involved, the MOU made no mention of narcotics trafficking.

Attorney General William French Smith took the position that the CIA should report information about trafficking by non-employees. In a letter sent to Director of Central Intelligence (DCI) William J. Casey on February 11, 1982, the day the MOU was signed, Attorney General Smith wrote:

I have been advised that a question arose regarding the need to add narcotics violations to the list of reportable non-employee crimes. 21 U.S.C. 874(h)<sup>(80)</sup> provides that "[w]hen requested by the Attorney General, it shall be the duty of any agency or instrumentality of the Federal Government to furnish assistance to him for carrying out his functions under [the Controlled Substances Act] . . ." [The] Executive Order 12333 tasks the Central Intelligence Agency to "collect, produce and disseminate intelligence on foreign aspects of narcotics production and trafficking." Moreover, authorization for the dissemination of information concerning narcotics violat[i]ons to law enforcement agencies, including the Department of Justice, is provided by [various] sections of the Order. In light of these provisions, and in view of the fine cooperation the Drug Enforcement Administration has received from CIA, no formal requirement regarding the reporting of narcotics violations has been included in these procedures. We look forward to the CIA's continuing cooperation with the Department of Justice in this area.

DCI Casey responded to the Attorney General's letter on March 2, 1982, thanking Smith for his February 11 letter, but Casey did not comment at all about Smith's understanding as to the reporting of drug trafficking information. Nonetheless, it appears from the subsequent actions and statements of CIA officials, that the CIA believed it should report information concerning narcotics trafficking to law enforcement agencies. For example, some time later, Alan Fiers, Chief of CIA's Central American Task

Force told a July 31, 1987 meeting with staff of the Senate Select Committee on Intelligence and the House Permanent Select Committee on Intelligence that "We [the CIA] report immediately all information on narcotics trafficking to the State Department and law enforcement agencies."

It should be noted that another MOU between DOJ and the CIA was signed in 1995 and was explicitly amended to include provisions requiring reporting of information about the following offenses by non-employees: "Violations of U.S. drug laws including the cultivation, production, transportation, importation, sale, or possession (other than possession of user quantities) of controlled substances; the production, transportation, importation and sale of precursor or essential chemicals[; t]he transmittal, investment and/or laundering of the proceeds of any of the unlawful activities listed in this Section" and conspiracy to commit any of the enumerated crimes.

## **C. DEA/CIA Interaction in Costa Rica**

The DEA did not have a Nicaragua Country Office until 1997. Before that time, the Costa Rica Country Office monitored Nicaraguan drug activity, though it received very little cooperation from the Sandinista government. Costa Rica was also the center of the Southern Front of the Contra conflict. In Chapter X, we discussed the allegations made by former DEA agent Celerino Castillo, including his allegations about drug trafficking by the Contras in El Salvador, a country that was covered by the DEA office in Guatemala. This section primarily discusses the DEA/CIA interaction in Costa Rica.

### **1. Information the CIA Gave DEA in Costa Rica**

DEA personnel assigned to the Costa Rica Country Office in the mid-1980s generally recalled having an amicable relationship with CIA Costa Rica Station personnel. However, DEA Country Attaches and Special Agents told us that they did not want to be perceived as having a "working relationship" with the CIA Station. Ronald Lard, the DEA Country Attache in Costa Rica from November 1989 through 1993, said he believed that he would have jeopardized the good relationships and high degree of latitude and cooperation Costa Rican law enforcement gave the Country Office if the Office was perceived to be working with the CIA.

The DEA personnel in Costa Rica told the OIG that the information the CIA gave the DEA was often too vague or general to be of use. Indeed, neither former CA Lard nor Donald Clements, the Country Attache in Costa Rica from 1980 to 1985, could recall any specific information about drug trafficking the CIA Station ever gave them. DEA personnel also reported that often they were unable to corroborate information received from the CIA Station because the Station would not reveal its source, nor would the Station allow the DEA to interview its informants. Lard recalled that sometimes, when the Station passed information to him, it was for his "eyes only" and that he was specifically instructed that he could not even share it with DEA Headquarters. Even when not given these instructions, Lard would not pass the information to DEA Headquarters unless the Country Office used the information in some way -- by, for example, creating a document or generating a report containing or based on the information.



Former Assistant CA Gonzalez said he recalled only one specific instance while he was in Costa Rica when the CIA gave the DEA narcotics-related information. A CIA operative gave Gonzalez some information about some airplanes suspected of being used for drug trafficking that were located at a small airstrip near San Jose, Costa Rica. Gonzalez said he had already known about the matter, but he prepared a DEA Form 6 containing the information.

According to DEA SA Juan Perez, the CIA Station in Costa Rica "always took and never gave anything." He said that personnel from the Station came into the Country Office from time to time to run NADDIS checks, claiming that the Station was looking into international money laundering. Perez said he had no idea if personnel in the Station actually were conducting such an investigation. In the late 1980s, Perez "turned over" to the CIA an informant with information about Central American politics that was not useful to the DEA.

Former CA Lard also recalled giving the CIA information that the DEA could not use. Lard stated that, from time to time the CIA Station would ask the DEA Country Office for information about the identities of persons or entities who were actual or potential DEA targets of investigation in Costa Rica.

## **2. Conclusions**

No DEA personnel stationed in Costa Rica during the mid-1980s could recall the CIA providing any information about Contras who might have been involved in narcotics trafficking. No DEA personnel stationed in Costa Rica during the mid-1980s who we interviewed recalled any instance of the CIA's asking the Country Office to refrain from investigating members of the Contra movement suspected of narcotics trafficking. Moreover, all DEA Country Attaches and agents interviewed by the OIG stated that, had they been asked to stop an investigation, they would have refused to do so and would have complained within the DEA.

The CIA OIG told us that the CIA personnel from the Costa Rica Station between 1981 to 1989 who it interviewed did not recall giving any information about narcotics trafficking by Contras to the DEA.

Based on a review of thousands of pages of DEA and CIA documents, interviews with DEA personnel stationed in Costa Rica during the 1980s, and CIA OIG's representations about the recollections of CIA personnel stationed in Costa Rica during the 1980s, we concluded that comparatively little information was exchanged between the CIA and the DEA pursuant to the MOU. However, we possess no information regarding any effort by the CIA in Costa Rica to prevent the DEA from learning about Contra or Contra-related trafficking, or to prevent the DEA from pursuing such matters.

## **D. Classified Memoranda from CIA to DEA on Drug Trafficking by the "Southern Front" Contras**

Above the Country Office level, the CIA did provide some information to the DEA about suspected trafficking activities by the "Southern Front" Contras.

In a memorandum dated October 25, 1984, the CIA reported that Adolfo "Popo" Chamarro had told an unnamed person or persons about an agreement he had recently made. At that time, Adolfo Chamarro was an official of the Sandino Revolutionary Front (FRS), a Contra group in Costa Rica headed by Eden Pastora. Chamarro said that he had reached a mutual assistance agreement in Miami, Florida with a narcotics trafficker who was a Cuban national. Under the agreement, the FRS would provide its "operational facilities" (e.g. airstrips) in Costa Rica and Nicaragua and would obtain documentation from the Costa Rican government to "facilitate the transportation of narcotics." In exchange, the trafficker would provide "financial support, aircraft, and pilot training" to the FRS.

In a November 9, 1984 meeting, the CIA told DOJ representatives (including DEA and FBI personnel) that the trafficker involved was Jorge Morales (actually a Colombian, not Cuban, national). According to a cable dated November 9, 1984 from FBI Headquarters to the FBI Miami Field Office, the CIA provided the following additional information:

On October 16, 1984, Morales reportedly turned over to FRS two helicopters and a DC-3 aircraft. The agreement between Morales and FRS also includes training for two FRS pilots in Miami, who in addition to their FRS military duties, will fly narcotics from Colombia to FRS-provided landing fields in Costa Rica and Nicaragua and then on to the United States.

The DOJ representative at the meeting asked the CIA to "obtain updated details" by November 14, 1984. FBI Headquarters also directed the FBI's Miami Field Office to verify some information about bank accounts the CIA had reported were being used to facilitate the agreement between FRS and Morales, and to conduct a records check on Morales and Chamarro. The FBI Miami office was to "insure [the] investigation [is] coordinated with DEA, Miami."

According to a later internal DEA cable, "[t]he source had not furnished actionable information sufficient to predicate initiation of a criminal investigation." An internal CIA cable explained that the source had become "frightened for his life and refused to cooperate with the Drug Enforcement Agency [sic]."

In a November 5, 1984 memorandum, the CIA related additional information about the alleged agreement between Chamarro and Morales. Morales was to supply the FRS with an airplane and \$200,000 per month in exchange for the use of FRS pilots in his narcotics activities. According to the CIA, Gerardo Duran, an "FRS pilot," was scheduled to make a flight for Morales from Miami, Florida, to the Bahamas.

A December 5, 1984, memorandum from the CIA related more information about these subjects. According to the CIA, a meeting between Eden Pastora, Adolfo "Popo" and Roberto "Tito" Chamarro (both FRS officials), and Jorge Morales in Miami had been scheduled for November 29, 1984, and had apparently taken place. FRS pilots Gerardo Duran and "Franco" were to meet Pastora and the Chamarro brothers in Miami. According to the CIA's information:

[T]he presence of Duran in Miami indicates that a narcotics flight is scheduled and plans for the flight will probably be made during the meetings between the FRS officers and Morales. The flight will probably move narcotics from Colombia to the Bahamas where, according to Morales, government officials are paid to cooperate.

Morales had given \$30,000 to the FRS, and had promised the FRS leaders the use of twenty additional aircraft, "once planned operations are underway." The CIA reported that "Morales appears to have the objective of moving his operations out of the U.S. and into Central America and the Bahamas. He has received considerable publicity in the Miami news media recently due to his indictment on drug smuggling charges and his prowess in power boat competitions."

The CIA's memorandum does not make clear when it received this information. If it was received on or before November 28, 1984, the CIA should have notified the DEA immediately and given the DEA permission to alert the Country Offices in Colombia and the Bahamas of the suspected narcotics flight, so that those offices could have tried to coordinate the interception of that flight with foreign authorities.

## **E. Other CIA Information**

Because the activities of the CIA were not the focus of our review, we did not conduct a thorough assessment of the extent to which the CIA passed all narcotics-related information involving Contras or Contra supporters to the DEA. However, in our limited review of certain CIA files, we found intelligence information regarding drug trafficking by Contra supporters that does not appear to have been passed to the DEA. We are also aware that the CIA did pass some intelligence information about drug traffickers affiliated with the Contra movement to the DEA and other entities. We leave it to the CIA OIG to describe in its report all the information it had regarding Contras and drug trafficking and whether the CIA reported that information to the DEA or any other appropriate authorities.

According to an internal CIA memorandum, CIA Central American Task Force Chief Alan Fiers told Congressional intelligence committees in July 1987 that the CIA would be meeting with the DEA to discuss information regarding possible trafficking by members of the Nicaraguan resistance. Despite this assertion, neither the DEA nor the CIA OIG could locate any record of any such discussions. Alan Fiers refused to be interviewed by the OIG. In response to our letter to him, he called us and said in a short conversation that he recalled only one instance when the CIA passed Contra and narcotics-related information to the DEA, regarding Cuban national Jorge Morales, which is discussed in the next section. He refused to be interviewed by us any further.

## **F. Information Passed By CIA Regarding Jorge Morales, Adolfo "Popo" Chamarro, and Roberto "Tito" Chamarro**

### **1. Fiers' Memorandum**

In his short statement to the OIG, Alan Fiers said that, in approximately 1987, "there was a specific communication with the DEA about some of Eden Pastora's people" possibly being involved in a potential or impending drug deal or money-laundering scheme. Fiers believed that Adolfo "Popo" Chamarro and Roberto "Tito" Chamarro were the Pastora associates involved and that the narcotics dealer involved was Jorge Morales.

The OIG located in DEA files documents confirming Fiers' recollection. These documents had been sent to the DEA by the State Department in 1987. Included in these documents was a May 4, 1987, memorandum to former Assistant Secretary of State Elliott Abrams, signed by Fiers, reporting the results of a polygraph examination of Contra leader Octaviano Cesar following the broadcast of an installment of the "West 57th Street" television program. On that show, convicted narcotics smuggler Jorge Morales alleged that Cesar recruited him to transport supplies for the Contras after Morales' indictment in March 1984. Morales also charged that he agreed to pay Cesar \$250,000 on a quarterly basis and allow the use of his planes in exchange for Cesar's promised protection and help in clearing up Morales' drug charges. (See section 3, below, for a discussion of Morales' allegations.) In exchange, according to Morales, he and his pilots had arranged for the shipment of cocaine and arms for the Contras, as well as the supply of airplanes, pilot training, and cash donations for the Contras.

According to the letter signed by Fiers, during the polygraph Cesar had stated that Morales had tried to persuade Cesar and Adolfo Chamarro to falsely claim ownership of two bank checks at a Florida airport. Cesar also stated that Morales had asked him to testify, during Morales' federal narcotics trial, that Morales had sold drugs for the Contras and had given the proceeds to the Contras. Cesar had refused Morales' request. Cesar also stated that he never received any money from Morales. Fiers' letter noted that Cesar had been very nervous during the polygraph and had "changed his facts" several times during the course of the examination.

## **2. DEA's Response**

On June 10, 1987, DEA Headquarters forwarded the results of Octaviano Cesar's polygraph examination to DEA's Miami Field Office, instructing the agents who had worked on Morales' case to "review their files and recontact their informants to see if there is any validity" to Morales' allegations linking Cesar to drug trafficking.

In a memorandum to DEA Headquarters dated July 2, 1987, the DEA Miami office reported that most of the informants or potential sources of information had been interviewed or reinterviewed, and none had any information about Cesar.<sup>(81)</sup> The Miami office had sought to debrief Morales, who was willing to talk with the DEA. But the United States Attorney's Office (USAO) in Miami informed the Miami DEA office that because Morales had reneged on a deal he made with the USAO to testify before a grand jury, the USAO would not allow the DEA to debrief Morales until a contempt citation against him was lifted. The DEA's Miami office also noted that Morales' associate Gerardo Duran was in the custody of Costa Rican authorities and suggested that DEA's Costa Rica Country Office might be able to debrief Duran. We found no record that such a debriefing ever occurred.

In the meantime, DEA Headquarters had searched its records and databases and found that Duran had been mentioned as an associate of Eden Pastora and a co-conspirator of Morales in two attempts to smuggle cocaine into the United States through Costa Rica. It did not find any information about Octaviano Cesar in any of its records.

### **3. DEA Intelligence Section's Debriefing of Morales**

From January 20 through 22, 1988, after the USAO dropped its objections to the debriefing of Morales, DEA Intelligence Analyst Douglas Everett, along with Intelligence Analyst Mark Montevidoni and Special Agent George Karst of the DEA's Miami Office, were able to debrief Morales in a Miami jail. Morales reported that he had first "associated with individuals alleged to have Contra affiliations" in June, 1983 at a meeting at Florida's Opa Locka Airport. Among those attending this meeting were members of the Medellin cocaine cartel. Morales stated that Contra pilots Marcos Aguado and Gerardo Duran flew the group into the Opa Locka airport. Morales reported that John Hull accompanied the group but did not participate in the meeting. Morales identified Hull as "an American citizen living in northern Costa Rica who owns a ranch allegedly used for ferrying weapons to the Contras."

Morales said that, in May 1984, after his federal indictment on drug charges, Marta Healy, a Contra and former wife of Contra leader Adolfo Chamorro, had contacted Morales and had asked him to give the Contras money, pilots, and aircraft. In exchange, Healy promised that Morales' legal problems would be "'taken care of' by her high-level CIA contacts, Octaviano Cesar and Popo [Adolfo] Chamorro." Thereafter, Morales had met with Cesar, Chamorro, and Aguado in Miami. Cesar asked Morales: (1) to arrange future weapon shipments to the Contras via John Hull's Costa Rica ranch; (2) to provide specialized flight training to several Contra pilots; and (3) to donate \$100,000 in cash to Chamorro's Contra group. Morales had replied that he could not donate \$100,000, but he would donate an unspecified amount and also give the Contras "safehouses in Miami, a boat, helicopter, [two airplanes], [and] 10,000 gallons of fuel." Cesar said that, in exchange for Morales' assistance, he would provide pilots to fly marijuana shipments for Morales and would also "clear up [Morales'] indictment through his high level contacts in Washington, D.C." However, despite Cesar's promises, Morales was prosecuted by the Southern District of Florida USAO and was initially sentenced to 16 years in prison. (This sentence was later reduced because of his cooperation against drug traffickers, unrelated to the Contras.)

According to Morales, he had arranged for weapons to be airlifted to Hull's ranch, with the first shipments occurring in the summer of 1984. Cesar and Chamorro had agreed to let him transport cocaine from Hull's ranch to a group of Colombians in Florida. Morales said the Contra pilots who had delivered weapons to the ranch from Florida would return to the United States carrying the cocaine. Morales noted that Aguado had refused to be a pilot for these shipments, because of his "CIA connections." These shipments of weapons and drugs continued into 1986.

Morales claimed to have met with Contra leader Eden Pastora in Miami in 1984, at a gathering at Marta Healy's house. Chamorro and Cesar had told Morales not to tell Pastora about the narcotics flights from Hull's ranch. Morales said that he mentioned nothing about the subject at the 1984 meeting, but had fully

informed Pastora about the drug trafficking when the two met in Panama in February 1986. Morales said that Pastora was "shocked over the news . . . Pastora just turned and walked away."

Morales also stated that after he was arrested again in Florida, in June 1986, on cocaine trafficking charges, Cesar had visited him in jail and told him that "it was going to take a lot of money to get his indictment dropped," but that his "legal problems would be taken care of by Cesar's high level contacts within the CIA." Morales stated that he never received the help Cesar promised.

The DEA administered a polygraph examination to Morales after his debriefing. The polygraph indicated deception on his claim that his initial reason for getting involved with the Contras was because Cesar and Healy had promised to intercede on his behalf with high-level United States government officials to "help" in his criminal charges. When confronted with this finding of deception, Morales admitted that he initially contacted the Contras because he wanted to fight the Communists and it was only after he made contact with them that they suggested they could help him with his legal problems. In a follow-up debriefing, Morales was asked to explain the basis for his previous claims that airstrips on Hull's farm had been used for drug and weapons shipments. Morales admitted he had never been to Hull's farm and he had heard only rumors about Hull's airstrips.<sup>(82)</sup> Morales also claimed that Octaviano Cesar instructed him to have his pilots fly weapons to Hull's ranch.

Douglas Everett later told the OIG that Morales' "amendments and clarifications" regarding the crucial Octaviano Cesar issue destroyed his credibility with the DEA.<sup>(83)</sup>

#### **4. "Follow-Up" by DEA Field Offices**

DEA Special Agent George Karst, who had attended Morales' debriefing, was assigned by the DEA's Miami Field Office to investigate Morales' allegations that were within the jurisdiction of the Miami office.

When interviewed by the OIG, Karst recalled that most of the information from Morales had been "political." In Karst's opinion, Morales had not provided much information that could be used to open a criminal investigation. He said the information regarding Contras that could have been investigated by the Miami office was "three or four years old" and related to people who were not United States nationals and who were probably living in Central America. Karst therefore did not pursue Morales' allegations about Contra leaders. Karst's assessment of Morales' credibility was that "some of what he said was probably true and some was probably bull" that he might have heard from others.

Karst recalled that, in a 1987 interview by Karst, Morales had claimed that "law enforcement authorities" had knowingly allowed him to engage in Contra-related drug trafficking. When Karst asked what facts Morales based this allegation on, Morales had responded that they "had to know" because he was conducting these drug operations "in plain view." Morales added that he believed that one of his partners in his drug trade was a former FBI informant and would have therefore told the FBI about his activities. Morales had also avowed that the CIA "had to know" of his trafficking on behalf of the

Contras because some of his associates were "ex-CIA Cuban expatriates." Karst told the OIG that he did not believe Morales' claims that both law enforcement authorities and the CIA knew about his drug trafficking activities and did not act on his allegations. Karst believed that Morales was making assumptions without any factual basis.

Karst noted that, after these initial debriefings, Morales did give the DEA valuable information about drug trafficking, although it had nothing to do with the Contras. As a result, Morales was able to obtain a significant reduction in the sixteen-year sentence he had received in 1987. Morales was released from prison in 1991, after serving only four years of this sentence, but he quickly violated the terms of his parole by traveling to Colombia with his girlfriend. Karst heard "through the grapevine" that Morales was killed in a car accident within a few months of his arrival in Colombia.

When the DEA's Costa Rica Country Office received a copy of Morales' debriefing on January 22, 1988, Special Agent Juan Perez investigated Morales' allegations regarding John Hull. Perez told the OIG that he could not find witnesses or informants who would have been able to corroborate or disprove Morales' allegations that Hull's airstrip had been or was being used as a transshipment point for narcotics. Perez said that even before Morales' allegations, there had been rumors in Costa Rica that Hull's airstrip was a refueling point for drug runners but that no one had ever come forward with any concrete, specific information to support the allegations. Compounding the difficulties in obtaining information was the fact that Hull was beloved by many people in Costa Rica. When poor people in rural areas became ill, Hull would use his plane or his Range Rover to transport them to the hospital, and would provide for the families of those people until they could resume working themselves.

Perez said he did go to Hull's ranch when Hull was not present and observed the airstrip. Perez said that it was a relatively short airstrip made of grass and concluded that it would be a difficult surface to use for drug trafficking. Based on his knowledge of the planes used for narcotics trafficking, Perez had concluded that there was "no way" that the types of planes most commonly used for narcotics shipments into and out of Costa Rica would have been able to take off from Hull's airstrip with a "standard" load of drugs and enough fuel to get to the United States or northern Mexico (the typical destinations for narcotics flights from Costa Rica, according to Perez).

Perez said he orally reported his findings to Robert Nieves, who was DEA's Costa Rica Country Attache in 1988. No one else in the Costa Rica Country Office investigated Morales' allegations.

## **5. Other Actions by DEA**

DEA documents indicate that the DEA was aware that pilot Gerardo Duran was involved with the Contra movement. For example, a 1986 DEA report regarding Duran contains the following statement: "Duran is well-known for his association with the Nicaraguan Contra movement, specifically with the Alianza Revolucionaria Democratica (ARDE) and Eden Pastora." In addition, the DEA knew that Duran was an associate of Contra sympathizer and convicted drug trafficker Jorge Morales. Both the Miami Field Division and the Costa Rica Country Office collected incriminating evidence pointing to

Duran's participation in narcotics trafficking and assisted the Costa Rican government in its successful prosecution of Duran for narcotics crimes in 1987. As stated in the DEA's 1986 "Personal History Report" on Duran:

Intelligence information received by the Costa Rica Country Office over the past several years indicates that [Duran] has been involved in facilitating the transshipment of hundred-kilogram quantities of cocaine from South America to the United States through Costa Rica. Evidence gathered [by the Miami Field Division] shows that during the month of January, 1986, [Duran] was in charge of a crew which loaded over 400 kilos of cocaine into an aircraft in Costa Rica piloted by a DEA [Confidential Informant, who was working with the DEA on this matter]. This cocaine was flown to the Bahamas and part of the load was subsequently smuggled into the United States.

According to DEA's "Personal History Report" on Duran, Duran was not indicted in Miami "because he is Costa Rican and cannot be extradited from Costa Rica to the U.S." However, in 1987 the DEA provided the Costa Rican government with the evidence it had collected and the DEA's Costa Rica Country Office specifically asked Costa Rican law enforcement authorities to investigate and prosecute Duran. Duran and an accomplice were arrested by Costa Rican police in 1987. Because of judicial delays and a dismissal of the original case on non-substantive grounds, Duran and the accomplice, Jose Guerra, were not tried in Costa Rica until 1992. DEA agents from both the Miami and Costa Rica offices were witnesses against Duran during his trial in Costa Rica. In November 1992, Duran and Guerra were convicted and sentenced to three years in prison in Costa Rica.

## 6. OIG Conclusions

We found that the DEA pursued the leads provided by Morales in his debriefing, and that the DEA's inability to confirm the allegations was not due to any pressure from DOJ or CIA. Rather, Morales' information, already somewhat suspect because of his deceptive behavior during the debriefing, was not corroborated.

Based on our limited review, we also concluded that the relationship between the DEA and the CIA during this time period was not characterized by substantial coordination and information-sharing.

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79. It is our understanding from the CIA OIG that an "asset" is someone, paid or unpaid, used by the CIA to provide services or information, generally not on a permanent basis. Full-time employees are referred to as "staff employees." CIA Directorate of Operations personnel who handle assets and operations are referred to as "case officers" or "operations officers."

80. This apparently was an incorrect citation and should have read 873[b].



81. Senator Kerry's subcommittee, which investigated allegations of Contra involvement in drug trafficking, came to a similar conclusion. He wrote a letter, dated November 17, 1987, to Octaviano Cesar stating: "I want to assure you that in testimony we have received in the course of my Subcommittee investigation, there has not been any allegation that you were involved in drug trafficking, nor has there been any evidence presented to support such a claim."

82. Former DEA Administrator John C. Lawn wrote a letter to the Kerry Subcommittee in 1989 stating that Morales had passed his polygraph examination. This statement was incomplete because, although Morales did pass his polygraph, he changed his allegations about a "Contra connection" after an initial finding of deception by the polygraph examiner. The statement that Morales passed his polygraph examination should therefore not be taken to mean that his initial allegations were true.

83. The OIG was unable to interview Morales because he died in 1991.

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## **G. DEA's Investigation of Information It Received About Contras or Contra Sympathizers**

### **1. Information about Contras in General**

According to former Costa Rica CA Donald Clements, during the mid-1980s, the DEA Country Office periodically received information from sources other than the CIA that Contras were engaged in drug trafficking. However, he said that this information was usually no more than unsubstantiated and unspecific rumor. Sometimes, informants would give information that the DEA country office would try to verify. The information from the office's informants consisted primarily of allegations that marijuana or cocaine was being grown or stored in Contra mercenary training camps. To try to verify the information, agents of the DEA Country Office went to those camps in an undercover capacity. The most the DEA ever found were some marijuana plants growing. Clements said that this was not unusual at all because "everyone in Costa Rica grew pot in his backyard." Clements said that the only thing he ever saw occurring in the mercenary training camps was "bad military training."

Similarly, according to Clements, there were widespread rumors in Costa Rica that Contras or Contra sympathizers were providing "protection" for drug runners. None of the information was ever specific enough for the DEA to be able to corroborate it, according to Clements. Clements discussed the information with Colonel Luis Barrantes of Costa Rica's anti-narcotics unit, who had also heard the rumors. Clements stated that CIA Chief of Station Joe Fernandez always insisted that there was "no way the Contras were giving protection" to drug runners. Fernandez agreed with Clements' supposition that there might have been Contra sympathizers freelancing and keeping the money for themselves. Clements was never able to find any evidence or any particular information about these "freelancing" Contras.

Clements stated that, although he never received any information that the Contras were involved in the trafficking of cocaine, there was a great the deal of clandestine air traffic passing over Costa Rica or landing in Costa Rica that DEA did not have the ability to track. Clements suspected that they were involved in cocaine smuggling, but he did not have the resources to track the planes closely enough to substantiate his suspicion. Clements believes that he and Sandy Gonzalez reported the suspected clandestine air traffic as intelligence. The OIG did locate a general file kept by SA Sandy Gonzalez entitled "Air Intelligence," which in fact described airplanes suspected of being used for drug trafficking.

Clements asserted that given its substantial resource limitations, the DEA pursued with diligence the few allegations regarding the Contras that the Country Office received. Furthermore, all of the DEA personnel interviewed by OIG vehemently denied that the CIA, other DOJ components, or any other United States government entity ever pressured them to forego investigating Contras or to refrain from doing anything that might interfere with the CIA's Contra operations.

### **2. Informant Information Received by the DEA**

According to a 1987 internal DEA document assessing allegations received by the DEA regarding the Contras and drug trafficking, prepared jointly with the CIA in response to Congressional inquiries on this subject, three "potential informants" provided information alleging that ranches in Costa Rica had been used to smuggle weapons to the Contras and cocaine to the United States. DEA Intelligence Analyst Douglas Everett told the OIG that these informants were Fred Vargis and two other investigators working for him at Backstreet Investigations in Front Royal, Virginia. Vargis and his associates specifically mentioned John Hull's ranch, alleging that it was protected by the CIA and that Hull took advantage of this protection and allowed planes loaded with cocaine to land there, charging \$10,000 per landing. According to Everett, the DEA decided not to work with these informants for two reasons: (1) they wanted to be paid a large, fixed sum of money for each kilogram of cocaine the DEA seized as a result of their information and that was "completely unacceptable" to the DEA; and (2) DEA Intelligence realized that the information these informants were providing "seemed to come verbatim" from the "civil lawsuit in Florida" brought by Martha Honey and Tony Avrigan. Everett provided the OIG with a document the DEA received from Backstreet Investigations which set forth all of the information Backstreet gave to the DEA. The OIG reviewed this document and concluded that the DEA was correct in finding that the information parroted previously published information about Hull and the Honey/Avrigan civil suit and the DEA was already aware of some of the information because of the case files compiled by DEA SAs Alfred Czerski and Michael Alston, which are further discussed below. The OIG concluded that the DEA's decision not to work with these informants was a reasonable one.

### **3. OIG Conclusions**

In our review of DEA documents and interviews of DEA personnel, we did not find that the DEA failed to investigate leads against the Contras because of any pressure from the CIA or any other government entity.

### **H. John Hull**

Former Senate investigators for the Kerry Subcommittee highlighted John Hull as someone who appeared to receive special treatment from DOJ because of his alleged ties to the Contras and the CIA. Because of these allegations, we reviewed DOJ's handling of matters related to Hull.

Hull lived in Costa Rica on a large ranch from the 1960s until 1989. Originally from Indiana, he holds dual United States and Costa Rican citizenship. According to CIA records, Hull helped the CIA in its delivery of weapons and "humanitarian aid" (e.g. food and clothing) to the Contras and the families of Contra soldiers. Hull's ranch had airstrips which were used by pilots ferrying arms and other aid in CIA-subsidized operations to help the Contras.

### **1. Allegations Reviewed**

As noted above, allegations were made that Hull rented out his airstrips to drug traffickers, that some Contras using Hull's airstrips were also trafficking in cocaine, and that Hull participated in some of the

alleged trafficking. For example, convicted narcotics pilot Gary Betzner testified before the Kerry subcommittee that he had used Hull's airstrips when he flew shipments of cocaine on behalf of the Contras. Jorge Morales, also a convicted narcotics trafficker, told the Kerry subcommittee, the DEA, and the CBS television program "West 57th Street" that the Contras used Hull's ranch as a transshipment point in the movement of cocaine destined for the United States. The DEA did not conduct any formal investigation of Hull and he has never been indicted on drug charges in the United States.

We assessed the information the DEA had regarding Hull and the propriety of its actions in response to that information. We also reviewed allegations that DOJ did not pursue fraud allegations made against Hull by the Overseas Private Investment Company (OPIC), an agency of the United States government. In addition, we examined allegations that DOJ has refused to cooperate with the Costa Rican government in its effort to prosecute Hull in Costa Rica on charges of murder, narcotics trafficking, and "hostile acts," and allegations that a DEA agent helped Hull flee from Costa Rica to avoid prosecution.

## **2. DEA Investigation of Drug Smuggling Allegations**

A DEA research report prepared by DEA's Intelligence Division in 1987 stated that DEA's Costa Rica Country Office had received unconfirmed reports that Hull was involved in drug smuggling. Sandalio Gonzalez, DEA's Assistant Country Attache in Costa Rica at the time, told the OIG that the Costa Rica Country Office could not corroborate any of the information it received about John Hull.<sup>(84)</sup>

The research report also noted that, in November 1986, a DEA informant reported that Colombian cocaine was offloaded at an airstrip on Hull's Costa Rican ranch and then transported into the United States concealed in a shipment of frozen shrimp. Francisco Chanes was a director and registered agent of "Mr. Shrimp," a Miami-based company alleged by the source to have received the shipments.

OIG's review of relevant DEA files revealed that both the Miami and Baltimore Field Offices of the DEA received this information. Both offices tried unsuccessfully to corroborate this information through a "lookout" on the vessels, allegedly used to smuggle the cocaine, which yielded nothing.

In 1987, Alfred Czerski, a Special Agent in the DEA's Baltimore Field Office, received third-hand hearsay from another informant that John Hull and another person were permitting airstrips on their Costa Rican ranches to be used to "offload" cocaine. The cocaine, according to the third-hand information obtained by the informant, was then shipped to two Florida companies, "Mr. Shrimp" and "Ocean Hunter." After debriefing the informant, Czerski opened a general file entitled "Mr. Shrimp."

Czerski told the OIG that he was not able to corroborate the information, "especially from [such a distance away as] Baltimore." Czerski added that this informant usually "did not have anything to back up what he said, and that was true in this case. He was a bounty hunter and when he realized there wasn't much action in Baltimore, he left."

Also in 1987, Michael Alston, a DEA Special Agent stationed in Miami, opened a general file, entitled

"Cocaine Smuggling Via Frozen Shrimp," after having received information from an informant that large quantities of cocaine were being concealed in shipments of frozen shrimp in Costa Rica, and then transported to Miami. Alston told the OIG that he believed that he received a teletype from another DEA office, possibly the Baltimore office, transmitting information related to the "tip" Alston received.

We found the teletype from DEA's Baltimore Field Office in Alston's general file. The teletype identified the alleged Miami "consignee" of the shrimp as Mr. Shrimp/Ocean Hunter, Inc., and the alleged Costa Rican shipper as Frigorificos De Puntarenas. After Alston ran a Florida corporate records check, he changed the file title to "Louis Rodriguez," who was listed as the President and Registering agent of Ocean Hunter.

Alston told the OIG that he never received enough information that he could corroborate to develop a case on the corporate entities or the individuals named as corporate officers. John Hull was not mentioned in Alston's general file, and Alston did not recognize Hull's name.

Luis Rodriguez was in fact prosecuted for smuggling cocaine into the United States. The Kerry Subcommittee Report identifies the same Luis Rodriguez as having been indicted in federal court in Florida in 1987 and 1988 on money laundering and narcotics charges investigated by the Federal Bureau of Investigation and the U.S. Customs Service. The NADDIS report on Rodriguez revealed no DEA arrest of Rodriguez during this time period. According to the Kerry Subcommittee, the State Department had used Frigorificos de Puntarenas to transport humanitarian aid to the Contras.

### **3. Investigation of Allegations that Hull Defrauded the Overseas Private Investment Company**

In April 1987, the Overseas Private Investment Corporation (OPIC), an independent United States government agency that assists United States companies which invest overseas, asked DOJ's Civil Division to investigate Hull for alleged fraudulent statements in connection with his successful application for a loan from OPIC. In March, 1984, OPIC loaned \$375,000 to Hull and his partnership, "Maderas Tropicales," to fund the expansion of a wood products factory in Quesada City, Costa Rica. Thereafter, the partnership defaulted on the loan. OPIC believed that financial statements submitted in support of the loan contained false statements about the value of Hull's assets, and that the partners had never contributed the \$100,000 in equity that the OPIC agreement had obliged them to raise.

In July 1987, the Civil Division referred OPIC's request to the Fraud Section of the Criminal Division. Ellen R. Meltzer, then a Senior Litigation Counsel in that section, was assigned to investigate the allegations and to make a recommendation as to whether Hull or Maderas Tropicales should be prosecuted for criminal fraud. Meltzer and two FBI agents reviewed the allegations.

According to Meltzer, in the course of their inquiry, the weakness of the case became apparent. The first problem was that the statements made by Hull on the loan application were very broadly worded and, therefore, hard to disprove. Meltzer said that another problem was whether OPIC had relied on the partnership's promise to contribute the \$100,000 when OPIC agreed to make the loan. Meltzer found that

OPIC had always believed that the factory project was viable, regardless of whether the partners ever put up any money. And most importantly, evidence of criminal intent was particularly weak: when interviewed by Meltzer and FBI agents, Hull had claimed that he had been too busy assisting the Contras with humanitarian aid when the loan application had arrived for his signature and he did not review the documents before signing them. One of Hull's partners said that he never understood that he was supposed to put up capital to qualify for the loan; the third partner could not be located by the FBI. Meltzer also discovered that the Loan Agreement was the only document in the entire OPIC loan file that mentioned the contribution of capital. As she later noted: "[E]ven the December, 1983 letter from OPIC to Hull committing the loan funds did not refer to any necessary equity contributions by Hull or his partners, although it mentioned a required United States life insurance policy on the life of Hull with OPIC as the loss payee."

The FBI was unable to trace how the loan proceeds were spent. However, the investigation revealed that OPIC employees had visited Hull in Costa Rica at least three times during the life of the wood products project, examined Hull's claimed expenses, and found that the expenditures Hull listed were supported by invoices he provided OPIC.

In May 1989, Meltzer and FBI agents traveled to Costa Rica to investigate this matter and had extensive meetings with Hull and several of his employees. However, the books and records of the company were not made available to them, as promised. They examined invoices which appeared to be genuine and to reflect purchases of equipment for a wood products factory (e.g. wood surface planers and a fork lift). They also viewed a wood drier and an "open air factory which was erected for the woodworking operation." According to Meltzer, neither she nor the FBI was able to find persuasive evidence that Hull had not intended to use the loan proceeds to operate Maderas Tropicales as a legitimate manufacturer of wood products. She concluded: "It is impossible to say that the operation failed as a result of thievery, rather than as a result of mismanagement, inexperience and antiquated equipment." Nor did the investigative team find any evidence that any of the loan proceeds had been diverted to Contra organizations.

Although the statute of limitations had already run on most of the potential false statement counts, Meltzer told us that she considered whether a conspiracy case could be brought against Hull, "because of the interest expressed in this investigation by several individuals," including members of the Senate Committee on Foreign Relations. She also "gave some thought to a mail fraud case using interest payments on the loan and various letters sent to OPIC by Hull as "mailings in furtherance of a scheme to defraud the agency." Ultimately, Meltzer concluded that, even if some statements made by Hull had been false -- and neither she nor the FBI agents could confirm that the statements were false -- the absence of reliance or evidence of criminal intent made prosecution inappropriate. Accordingly, she recommended to her supervisors in the Fraud Section that Hull not be charged criminally. Laurence A. Urgenson, then the Chief of the Fraud Section, concurred with Meltzer's recommendation, as did Paul L. Maloney, then a Deputy Assistant Attorney General in the Criminal Division.

In July 1990, after the Criminal Division had declined prosecution, the Fraud Section Chief sent a memorandum to the Director of the Commercial Litigation Section of DOJ's Civil Division, informing

him of the Fraud Section's decision "so that the Civil Division may take whatever action it deems appropriate." Meltzer told the OIG that, thereafter, "one or two" attorneys from the Commercial Litigation section, whose names she could not recall, came to her office and reviewed her files on the Hull fraud allegations. The Civil Division has no records about Hull, and did not open a case against him.

In evaluating the appropriateness of the action taken by DOJ regarding the allegations that Hull defrauded OPIC, the OIG reviewed OPIC's loan file, reviewed the FBI's investigative file, interviewed Ellen Meltzer, reviewed Meltzer's Recommendation to Decline Prosecution Memorandum, and asked the Civil Division for all records it had concerning the Hull loan matter. We found that the decision declining to prosecute Hull was not influenced by any pressure from the CIA or any other entity. The Fraud Section of the Criminal Division of the Department of Justice concluded that it did not have sufficient evidence to prosecute Hull, a decision which appears reasonable based upon our review.

#### **4. Allegation that a DEA Agent helped Hull Flee Costa Rica**

In January 1989, John Hull was indicted in Costa Rica on murder, narcotics, and "hostile acts" charges arising out of his alleged role in the 1985 bombing attempt on Eden Pastora's life, in which several journalists were killed. In July 1989, Hull fled to Haiti and then to the United States.

On May 17, 1991, Costa Rican journalist Jorge Valverde told Ronald E. Lard, then DEA's Country Attache in Costa Rica, that Hull had claimed to have received help from a DEA Special Agent in his escape from Costa Rica. This agent was stationed in Costa Rica at the time that Hull fled the country. Lard advised DEA's Office of Professional Responsibility (OPR) and the Charge d'Affaires at the United States Embassy in Costa Rica about the allegation.

Within a week of being informed of the allegations, DEA OPR initiated an investigation. According to OPR records, OPR Senior Inspector Anthony Ricevuto interviewed the accused agent on May 30, 1991. The accused agent stated that he had been introduced to Hull by an acquaintance and had thereafter spoken to Hull perhaps four or five times. The accused agent said that he did not know how Hull escaped from Costa Rica and signed a statement to that effect.

After learning from a private investigator working for a criminal defendant in an unrelated case that "a DEA contract pilot" had flown Hull from Costa Rica to another country, and learning from Lard that one of the accused agent's informants in Costa Rica, Harold Wires, was a pilot, Ricevuto interviewed Wires on July 23, 1991. Wires claimed the accused agent had given him between \$500 and \$700 to fly Hull in a Cessna aircraft to Haiti. There, they met Jorge Melendez, a pilot for the DEA in Costa Rica, who flew back to back to Costa Rica with Wires in the Cessna. Hull was flown to the United States by Ron Lippert who, according to Wires, was a close friend of the accused agent. According to Wires, he, Kornicki, Hull, Lippert, and Melendez had had breakfast together in Haiti, before going their separate ways. Wires said that he had not spoken to the accused agent since shortly after Hull's escape, when he and the accused agent had a "verbal disagreement."

Ricevuto confirmed that Jorge Melendez had been a DEA informant and a freelance pilot at the time of Hull's flight from Costa Rica. He then interviewed Melendez, who stated that he and Lippert had flown to Haiti on behalf of a private transportation company. After staying overnight in Haiti with Lippert, Wires and Kornicki, Melendez had returned to Costa Rica in the Cessna. Melendez said he had never seen Hull in Haiti, and had no idea whether Hull had flown to Haiti with Kornicki and Lippert.

Twenty days later, Inspector Ricevuto received a telephone call from Harold Wires and Bobby Kornicki, who both said that the accused agent had not known Hull was on the Cessna going to Haiti. The accused agent knew only that the Cessna was to return to Costa Rica after it had picked up Melendez. When Ricevuto noted that this account conflicted with Wires' earlier statements, Wires repeated that the accused agent had not known about the plan to help Hull flee. Wires explained that he had "set up" the plan because he had felt that the CIA had "abandoned" Hull in Costa Rica. At a subsequent interview on September 26, 1991, Wires stated that the accused agent had given him \$700 to refuel the Cessna in Haiti for the flight back to Costa Rica. It was Lippert who had asked Wires to fly Hull from Costa Rica to Haiti. The accused agent had never asked Wires to do anything to assist Hull. He noted that Hull had recently called him, upset after having read an article by Martha Honey, alleging that the accused agent had been involved in Hull's flight. Wires signed a statement saying the accused agent "was never a part or ever had knowledge of" the plans for Hull's escape. Wires was asked to take a polygraph and stated that he would discuss it with his attorney. It does not appear that Wires was polygraphed regarding his statement.

Ricevuto interviewed Ron Lippert on August 9, 1991. Lippert stated that the accused agent had helped plan Hull's escape, a claim he reiterated during a second interview with Ricevuto on September 30, 1991. Lippert agreed to a polygraph examination, which DEA SA John Schuller administered immediately after the second interview. SA Schuller found that Lippert was "deceptive in his answers."

On September 26, 1991, OPR Inspector Sandalio Gonzalez received a telephone call from a man who identified himself as John Hull, who said he was calling because he had spoken to Gonzalez when Gonzalez was Assistant Country Attache in Costa Rica. Hull was very upset about the newspaper article written by Martha Honey and said "they are framing [the accused agent]." Hull added that he had proof that the accused agent had nothing to do with Hull's departure from Costa Rica. Hull asked who he could contact at the DEA to discuss the allegations against the accused agent. Gonzalez told Hull to contact Senior Inspector Ricevuto.

On October 7, 1991, Hull wrote Ricevuto a letter responding to questions Ricevuto had posed to Hull by telephone on October 4, 1991. In his letter, Hull wrote:

I have no close personal friendship, interest or animosity toward [the accused agent] . . . . The only people that know the truth about how I left Costa Rica are the pilots and myself . . . . I have no idea if [the accused agent] knew how and when I was leaving Costa Rica. I assumed the ambassador was fully aware of my intentions. However[,] I have no direct knowledge to verify this, and no way to know what was discussed between [the



accused agent] at any time, anyplace or to anyone . . . . (Q) Did I ever pay money to [the accused agent?] (A) No. . . . Hopefully this will clear up your investigation and stop the injustices being carried out against [the accused agent].

DEA's Board of Professional Conduct reviewed all of the evidence and testimony collected by Senior Inspector Ricevuto. On January 15, 1992, the Board recommended that the accused agent be issued a letter of clearance. Although our review is limited and we did not reinterview the persons involved in the incident, the DEA file indicates that DEA OPR's conclusion was reasonable.

## **5. The Justice Department's Actions Regarding the Costa Rican Extradition Request**

In 1991, the Justice Department received a request from the Costa Rican government to extradite Hull. To evaluate the Justice Department's handling of the Costa Rican government's request, the OIG reviewed the relevant DOJ file, interviewed the two attorneys who worked on the request, and obtained relevant documents from the State Department.

When a foreign country seeks to extradite someone from the United States, the Office of International Affairs (OIA) of DOJ's Criminal Division handles the country's request. Depending on the custom and practice of the requesting nation, the extradition request is either sent directly to OIA from that nation's counterpart to DOJ, or is forwarded to DOJ through the State Department. Costa Rica customarily sends extradition requests via the State Department. On May 13, 1991, the State Department forwarded to OIA the Costa Rican government's request for the extradition of John Hull.

Before OIA can bring an extradition petition to a judicial officer and seek an arrest warrant, it must ensure that the documentation provided by the requesting country complies with the requirements of a valid extradition treaty and satisfies the probable cause requirements of United States law. In addition, OIA will not bring an extradition petition for a foreign crime where there is no "reciprocal" (equivalent or analogous) offense in the United States. This is known as the "dual criminality requirement." According to OIA attorneys, if OIA finds irregularities or insufficiencies in the documents supplied by the requesting country, as it often does when a request is something other than a simple charge that is supported by overwhelming and clear evidence, there will be "a lot of back and forth" between OIA and the requesting country. Sometimes OIA will deal with a foreign government directly. However, in Costa Rican matters (as with those of many other countries), the OIA will make its requests for additional information through the State Department.

OIA attorney Lystra Blake told us that Costa Rica's request for the extradition of John Hull presented a complex case with unusual charges: an offense under the Costa Rican "Hostile Acts" law; a charge that Hull had committed premeditated murder and attempted murder in connection with the La Penca bombing aimed at assassinating Eden Pastora; and an "international narcotics trafficking" charge.

The drug charges were based on informant information that Hull was allowing his ranch to be used by pilots affiliated with the Contras and that they used the ranch as a transfer point for drugs that were later

flown into the United States. While the files are not clear on this matter, Costa Rican authorities appear to have based their allegations on evidence that Hull purchased a much larger quantity of gasoline than his small airplane would have used; Hull's contact with known drug trafficker Jorge Morales, who was in prison at the time; and informant information that, on at least three occasions between 1983 and 1985, planes carrying arms allegedly intended for use by the Contras landed on airfields owned by Hull, and allegedly were refueled and loaded with drugs for transportation to the United States with the knowledge of Hull. The other charges were based on allegations that Hull had some involvement in the plot to assassinate Eden Pastora.

OIA concluded that the documentation and evidence supporting the Costa Rica extradition request was inadequate. Over the next three years, OIA made many requests to Costa Rica for further documentation, for translations of various information, and for more information about the charges brought against Hull in Costa Rica -- information both about the substantive laws under which Hull was being charged and the facts on which the Costa Rican government was relying as a basis for those charges. OIA attorney Kevin Smith -- now assigned to the Hull matter -- told the OIG that this sort of protracted process is not unusual for Costa Rican extradition requests.

In March 1993, Costa Rica submitted a renewed request for Hull's extradition which contained documents indicating that the Superior court in Costa Rica had dismissed the drug trafficking charge against Hull for lack of evidence and that his extradition was no longer sought for that offense. This left the "Hostile Acts" and murder charges against Hull. However, on reviewing the documentation supporting the murder charge, based on Hull's alleged involvement in the La Penca bombing, the OIA found no evidence of Hull's involvement in this crime, indeed no evidence that he even knew about the bombing before it occurred. Accordingly, OIA attorney Lystra Blake, who handled the Hull extradition matter from its inception through May 1996, responded to the renewed request for extradition in a letter dated August 2, 1994, informing Robert Harris at the State Department that, although the revised documents submitted with Costa Rica's most recent request responded to a number of deficiencies in the original request, OIA found that they were still "not sufficient for presentation in a United States court." Blake noted in her August 1994 letter:

It is possible that [the Hostile Acts] statute is similar to the United States' Neutrality laws and therefore satisfies the dual criminality requirement. However, even if hostile acts satisfies the dual criminality requirement, this offense, by definition, may fall within the political offense exception of Article 4 of the [extradition treaty between the United States and Costa Rica]. We are looking into the matter to determine if hostile acts may be considered an extraditable offense. If it is, the documents are sufficient to seek Mr. Hull's extradition for this offense.

Blake also stated in her letter that the revised documents did not establish any probable cause on the issue of murder or attempted qualified murder. The letter stated that DOJ had found that the facts presented failed to show that Hull knew about the La Penca bombing before it occurred or that he participated in it. Blake asked that OIA's comments be forwarded to the government of Costa Rica.

When we asked Blake if OIA had, in fact, determined whether the Hostile Acts charge satisfied the dual criminality requirement and, if so, whether it fell within the political offense exception to the treaty, Blake explained that she had regarded this paragraph of her letter as an invitation to the Costa Rican government to inform OIA as to whether the Costa Rican government wanted to proceed with an attempt at extradition on the Hostile Acts charge, especially in light of information OIA had received indicating that the statute of limitations on the Hostile Acts charges may have run in Costa Rica. This account is supported by a cable, dated January 10, 1994, from the American Embassy in Costa Rica to the State Department and Lystra Blake. This cable described a meeting between Embassy personnel and John Hull's Costa Rican attorney, Yelba Mairena, in which Mairena informed the Embassy that the statute of limitations under Costa Rican law was about to run out on the Hostile Acts charge pending against Hull.

Blake recalled that she had orally advised State Department employee Robert Harris that she needed to know whether the Costa Rican government wanted to proceed on the Hostile Acts charge. But the Costa Rican government made no effort to move forward. Blake noted that conversations that she had with representatives (whose names she cannot recall) from the Costa Rican government after her August 1994 letter made clear that the Costa Rican government was not interested in pursuing the Hostile Acts charge. Indeed, Blake believed that the Costa Rican government was not genuinely interested in pursuing any aspect of Hull's extradition: "Costa Rica was really not pushing it, the officials talked a good talk" but were not forthcoming with documents and information.

Blake's belief that the Costa Rican government was not genuinely interested in pursuing Hull's extradition is supported by a cable the American Embassy in Costa Rica sent to the Secretary of State, the Ambassador to the United Nations, and several American embassies on October 10, 1990, before the Costa Rican government officially requested Hull's extradition. The cable recorded a meeting at the American Embassy in Costa Rica with Costa Rican President Roberto Calderon, and noted:

Another matter he wanted to bring to our attention, Calderon said, is the forthcoming Costa Rican request to extradite John Hull from the United States. . . . His government has no interest in extraditing John Hull. Hull is a personal friend, whom he respects and the executive branch has no interest in prosecuting him. Under Costa Rican law, however, the decision to request extradition is the responsibility and prerogative of the judicial branch. The executive is required to act as the judiciary's agent and has no discretion. Thus, when the voluminous request (of some 3,000 pages) is finally translated, the request will go forward.

A "comment" by the cable's author interprets Calderon's statement as meaning that "On Hull, Calderon is putting us on notice that there's no way he can turn a request off but is clearly hoping that Hull will not be extradited."

In sum, we found no evidence that OIA departed from the treaty requirements with Costa Rica, United States law, or its own procedures in handling the Hull extradition request. The matter was not pursued

because Costa Rica dropped the drug charges, OIA found that the murder charges were not supported by probable cause, and the Costa Rican government did not pursue the "Hostile Acts" charge. Moreover, there is no evidence that this decision was influenced by any outside agency or was based on any improper motivation.

## **I. Jose Orlando Bolanos**

As discussed in the introduction of the report, the CIA reported to the State Department in January 1987 that an individual named Jose Orlando Bolanos had met with undercover DEA and FBI agents in January 1982, claiming to be the leader of an anti-Communist movement in Nicaragua called the "Internal Front." Bolanos allegedly laid out a plan to the undercover agents to import cocaine into the United States and requested money for expenses to do so. According to the report, Bolanos later refused to accept the money and the plan was never implemented. The OIG examined DOJ files to gain additional details about the allegation.

Bolanos is a Nicaraguan national who was raised in the United States. He returned to Nicaragua and began a developmental relationship with the CIA in 1979, which ended shortly thereafter when the Somoza regime was ousted. Bolanos maintained an informal relationship with a CIA case officer in South America. According to the CIA OIG, Bolanos maintained the relationship on his own initiative. Bolanos told the case officer that he was acting as a fundraiser for the Contra group UDN.

In 1982, undercover DEA agents met with Bolanos in Florida. According to a DEA report, Bolanos told the agents that he was the "Commander-in-Chief of the partisan army in Nicaragua . . . . He stated that he had trained an army with the help of the Argentine military and was planning the overthrow of the communist regime in Nicaragua." Bolanos also told the agents he could obtain 1,000 kilograms of cocaine from the Secretary to the Minister of the Interior in Bolivia. According to the DEA agents, Bolanos agreed to sell up to 1,000 kilos of cocaine to them and "receive the profits of the first 100 kilograms and use the profits to subsidize his military venture in South America."

At the same time that he was meeting with the DEA undercover agents, Bolanos was also negotiating for the sale of 1,000 kilos of cocaine to FBI undercover agents through another narcotics trafficker. Bolanos told the FBI agents that he was affiliated with an anti-Communist organization in Nicaragua and had turned to drug trafficking to try to raise money to fight the Sandinista regime.

The DEA and FBI began to coordinate a joint investigation of Bolanos in January 1987. Bolanos eventually backed out of the planned deal because of his dissatisfaction with the arrangements for payment and the refusal of the undercover agents to give him money up front for expenses. The joint investigation ended in February 1982. According to a DEA report dated June 22, 1982, the DEA planned to proceed with the investigation of Bolanos but when Bolanos was arrested in Nicaragua for his efforts to overthrow the Sandinista regime in June 1982, the DEA closed its investigation.

CIA OIG told the OIG that the CIA case officer with whom Bolanos maintained contact was aware that

Bolanos was planning to participate in a large scale drug transaction. According to the CIA OIG, Bolanos told the case officer that he planned to steal from the dealers and turn them into the DEA. There is no record that the CIA reported this information to the DEA.

In late 1986, one of Bolanos' drug associates was indicted on drug charges and pled guilty. At the time of his plea, he implicated Bolanos in drug trafficking and described Bolanos' anti-Sandinista activities. The FBI learned that Bolanos was back in the United States and requested that the USAO in the Northern District of Florida, indict Bolanos. The USAO declined prosecution.

It appears that in 1986, the Bolanos case came to the attention of Criminal Division Deputy Assistant Attorney General Mark Richard, who personally reviewed the matter with the Chief of the Narcotics and Dangerous Drug Section (NDDS), Charles Saphos, after DOJ sent out inquiries regarding Contras and drugs in response to Congressional inquiries. According to a NDDS memorandum, NDDS reviewed the matter and concluded that the case against Bolanos was weak: "Due to the lack of proof of apparent ability to produce the cocaine in question, coupled with the age of this case, prosecution is not recommended."

Mark Richard's handwritten notes of a meeting with an AUSA from the Northern District of Florida, indicate that Richard concurred with the assessment that the case was weak and recorded in his notes that the AUSA had told him that the government "may have another case against Bolanos." Richard recorded that he "told AUSA to go forward with strong case if he so desires -- Keep us advised . . . . Told [the AUSA] to handle matter as they normally would."

The OIG concluded that DOJ handled the Bolanos matter appropriately. The DEA and FBI both pursued the initial investigation of Bolanos, and the decision by the U.S. Attorney's Office not to prosecute Bolanos was based, not on the fact that he was a Contra, but rather on its assessment of the strength of the evidence.

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84. SA Gonzalez told the OIG that he spoke to Hull once. After a spate of unfavorable publicity in Costa Rica about Hull, including allegations of drug trafficking, Hull contacted DEA's Costa Rica office and was referred to Gonzalez. Hull invited the DEA to search his ranch for any evidence of narcotics trafficking. Gonzalez told the OIG that he declined. Gonzalez stated that he considered Hull's invitation to be completely self-serving and that if Hull were involved in drug trafficking, he would certainly remove all evidence of it before inviting the DEA to search his property.

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## Chapter XII: Conclusions

The San Jose Mercury News articles that prompted this investigation contained allegations that, if true, would be extremely shocking. The allegations contained a volatile mixture, linking the activities of the CIA, the Nicaraguan Contras, and the crack explosion. The articles also implied that the pursuit of the foreign policy to aid the Contras resulted in the manipulation of the judicial system, the protection of certain people by the CIA, and the failure of the Department of Justice to investigate and prosecute substantial drug traffickers. These allegations resonated with a substantial number of people and fueled suspicion that our system of criminal justice was corrupted by foreign policy considerations.

We therefore expended significant resources in a lengthy and exhaustive review of the investigations and prosecution of the various individuals who were the center of the allegations in the articles -- Blandon, Meneses, Ross, Lister, and others. Our review found that the allegations in the articles were exaggerations of the actual facts. Although the investigations and prosecutions of these individuals suffered from various problems, their success and failure were determined by the normal dynamics that affect many investigations of drug traffickers, such as the availability of credible informants, the ability to penetrate drug distribution organizations, the ability to make seizures of physical evidence, the availability of sufficient resources to pursue cases, and the aggressiveness and judgments of the law enforcement officers involved. These factors, rather than anything as spectacular as a systematic effort by the CIA to protect the drug trafficking activities of the Contras, determined what occurred in the cases we examined.

We found that Blandon and Meneses were plainly major drug traffickers who enriched themselves at the expense of countless drug users and the communities in which these drug users lived, just like other drug dealers of their magnitude. They also contributed some money to the Contra cause. But we did not find that their activities were the cause of the crack epidemic in Los Angeles, much less in the United States as a whole, or that they were a significant source of support for the Contras.

We did find troubling aspects of the cases we examined. Blandon did receive a green card improperly. For a period of time, the Department of Justice was not certain whether to target Meneses or use him as a cooperating witness against other drug dealers. The government was not anxious to have DEA agent Castillo openly probe the activities at Ilopango airport because of the sensitive operations there. The CIA did intervene in the Zavala case concerning the return of seized money to him. But these specific problems and issues fall far short of the type of manipulation and corruption of the criminal justice system that the articles suggested.

We also recognize that it is impossible to draw conclusions about these matters with absolute certainty, given the age of the cases, faded memories, the dispersion of witnesses and evidence, and the biases and special interests of many of the people we interviewed. We are also realistic enough to realize that suspicion of the actions of federal law enforcement in these matters may not end with our report, especially because in any complex investigation there are inevitably unanswered questions, which are

multiplied when the investigation takes place so long after the events being investigated. But we believe that a full and fair consideration of our report will demonstrate that our review was exhaustive and that our findings are supported by the evidence.

**Michael R. Bromwich**  
**Inspector General**

**December 17, 1997**

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## Appendix A: Background on United States Funding of the Contras

In examining the allegations in the Mercury News and elsewhere, it is important to understand the timing of funding of the Contras by the United States. The following dates explain the periods during which the United States government provided funding to the Contras or cut off such funding.

Anastasio Somoza Debayle was the leader of Nicaragua from 1967 until July 1979, when he was overthrown by the Sandinistas. When President Ronald Reagan took office in January 1981, he promptly canceled the final \$15 million payment of a \$75 million aid package to Nicaragua, reversing the Carter administration's policy towards Nicaragua. On November 17, 1981, President Reagan signed National Security Directive 17, authorizing provision of covert support to anti-Sandinista forces. On December 1, 1981, Reagan signed a document intending to conceal the November 17 authorization of anti-Sandinista operations. The document characterized the United States' goal in Nicaragua as that of interdicting the flow of arms from Nicaragua to El Salvador, where leftist guerrillas were receiving aid from Sandinista forces.

In late 1982, Edward P. Boland, Chairman of the House Select Committee on Intelligence, introduced an amendment to the Fiscal Year 1983 Defense Appropriations bill that prohibited the CIA, the principal conduit of covert American support for the Contras, from spending funds "for the purpose of overthrowing the government of Nicaragua." However, the CIA could continue to support the Contras if it claimed that the purpose was something other than to overthrow the government. In December 1983, a compromise was reached and Congress passed a funding cap for fiscal year 1984 of \$24 million for aid to the Contras, an amount significantly lower than what the Reagan administration wanted, with the possibility that the Administration could seek supplemental funds later.

This funding was insufficient to support the Administration's "Contra program" and the decision was made to approach other countries for monetary support. In April 1984, Robert McFarlane convinced Saudi Arabia to contribute \$1 million per month to the Contras through a secret bank account set up by Lt. Col. Oliver North.

In October 1984, the second Boland amendment took effect. It prohibited any military or paramilitary support for the Contras from October 3, 1984, through December 19, 1985. As a result, the CIA and Department of Defense (DOD) began withdrawing personnel from Central America. During this time, however, the National Security Council continued to provide support to the Contras.

In August 1985, Congress approved \$25 million in humanitarian aid to the Contras, with the proviso that the State Department, and not the CIA or the DOD, administer the aid. President Reagan created the Nicaraguan Humanitarian Assistance Office (NHAO) to supply the humanitarian aid. In September 1985, Oliver North began using the Salvadoran air base at Ilopango for Contra resupply efforts.

On October 5, 1986, a plane loaded with supplies for the Contras, financed by private benefactors, was



shot down by Nicaraguan soldiers. On board were weapons and other lethal supplies and three Americans. One American, Eugene Hasenfus, claimed while in custody that he worked for the CIA. The Reagan Administration denied any knowledge of the private resupply efforts.

On October 17, 1986, Congress approved \$100 million in funds for the Contras. In 1987, after the discovery of private resupply efforts orchestrated by the National Security Council and Oliver North, Congress ceased all but "non-lethal" aid in 1987. The war between the Sandinistas and the Contras ended with a cease-fire in 1990.

Although the Contras were often referred to as one group, several distinct factions made up the Contras.

In August 1980, Colonel Enrique Bermudez, a former Colonel in Somoza's National Guard, united other former National Guard officers and anti-Sandinista civilians to form the Fuerza Democratica Nicaraguense (FDN). This group was known as the Northern Front because it was based in Honduras. In February 1983, Adolfo Calero became the head of the FDN.

In April 1982, Eden Pastora split from the Sandinista regime and organized the Democratic Revolutionary Alliance (ARDE) and the Sandinista Revolutionary Front (FRS), which declared war on the Sandinista regime. Pastora's group was based in Costa Rica and along the southern border of Nicaragua, and therefore became known as the Southern Front. Pastora refused to work with Bermudez, claiming that Bermudez, as a member of the former Somoza regime, was politically tainted. The CIA decided to support the FDN and generally declined to support the ARDE.

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## Appendix B: Production of Cocaine Hydrochloride and Cocaine Base

### Production of Cocaine Hydrochloride

Cocaine hydrochloride, which is cocaine in its powdered form, is primarily produced from the leaves of one of two species of erythroxylon plants -- erythroxylon coca or erythroxylon novogranatense --that are found principally in Peru, Bolivia, and Colombia. In one of the most commonly used procedures, coca leaves are pulverized; mixed with an alkaline material (e.g., baking soda), an organic solvent (e.g., kerosene, benzol, or gasoline), and water, and then shaken. The water and leaves are then discarded. An acid (e.g., sulfuric acid) is mixed with the solution to remove residual solvents. Baking soda is added and the mixture is dried, creating a putty-like substance called "coca paste" or "basuco."

In some South American countries, the paste itself is smoked instead of being further processed into powder. The practice of smoking coca paste has never been popularized in the United States . Coca paste is almost invariably converted into powder cocaine in the producing country before being exported to the United States. This is accomplished by, first, dissolving coca paste in hydrochloric acid and water, and then adding potassium salt, which causes undesirable substances to separate from the mixture. When ammonia is added to the remaining solution, powder cocaine precipitates out, and is then removed and dried. While the active ingredient in powder cocaine -- cocaine alkaloid -- does not differ from that in coca paste or crack, the salt that is added during this process renders cocaine hydrochloride unsmokeable. (1) However, the salt renders the cocaine hydrophilic: i.e., readily dissolvable in water. Thus, cocaine hydrochloride can be mixed with liquid and injected into the bloodstream or insufflated (snorted) and absorbed through the nasal mucous membranes. Injecting and insufflating are referred to as "routes of administration."

The route of administration determines the rate at which a drug is absorbed into the bloodstream, which in turn determines the intensity of the body's reaction to a drug. Absorption of a drug is affected by two factors: the amount of blood flowing to the site of consumption and the surface area over which the drug is absorbed. When cocaine is administered through nasal insufflation, it is absorbed through the relatively small nasal mucosa in the nasal cavity. It appears in the bloodstream three to five minutes after administration; maximum psychotropic effect is achieved in 20 minutes; and the effects are sustained for roughly one hour after peak effect. When cocaine is injected, it immediately reaches the bloodstream; reaches the brain within one minute; maximum psychotropic effect is reached in four minutes; and the effects linger for about 30 minutes. Injecting and insufflating are inefficient routes of administration when compared to smoking, the characteristics of which are described below.

The upsurge in cocaine use from the mid-1970s to the mid-1980s was primarily the result of increased consumption of cocaine hydrochloride administered intranasally by middle-class and upper-class cocaine users. Few cocaine users were injecting cocaine during this period, and even fewer were making the effort to convert it to cocaine base. The emergence of crack cocaine fundamentally altered these demographics.

## Production of Cocaine Base (Freebase and Crack Cocaine)

Cocaine base is cocaine hydrochloride that has been reverse-engineered back to a chemical base state, thereby rendering it smokeable. During the process of creating cocaine base, the cocaine alkaloid is "freed" from the salt that was added during the production of cocaine hydrochloride. The resulting substance is chemically similar to coca paste, but without many of the adulterants found in paste.

When cocaine is smoked as coca paste or crack, the intensity of the sensation is said to be indescribably intense. The absorption of a drug through the air sacs of the lungs, which have the surface area the size of a tennis court, is rapid. Crack takes about 19 seconds to reach the brain. Maximum psychotropic effect is attained approximately two minutes after inhalation. The physiological and psychotropic effects of crack are sustained for approximately 30 minutes after the peak effects are attained.

Since the 1970s, cocaine hydrochloride has been converted into one of two forms of smokeable cocaine base, freebase cocaine or crack cocaine. Both are referred to as "cocaine base," because both are in the chemical base state and can therefore be smoked. Freebase cocaine was used by a small community of affluent cocaine users during the 1970s and early 1980s. Although crack may have been used during the same timeframe, it did not gain notoriety until the early 1980s.

Freebase cocaine is manufactured by dissolving powder cocaine in water and a strong alkaloid solution, such as ammonia, to remove the hydrochloric acid. When ether or another organic solvent is added, the solid substance that crystallizes is purified cocaine. The rock of cocaine is placed in a pipe, which often is glass and fitted with one or more mesh screens upon which the chunk of cocaine rests. Technically, crack is not smoked: the user heats the side of the bowl, causing the cocaine base to vaporize, and inhales the cocaine alkaloid-laden vapors through a stem connected to the bowl.

Crack cocaine is created through a process that is substantially similar to that used to create freebase, except without the use of volatile chemicals. Powder cocaine is dissolved in a solution of sodium bicarbonate and water. The solution is boiled and a solid substance separates from the boiling mixture. When this solid substance is removed and allowed to dry, the resulting chunks or "rocks" of cocaine are "crack."

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1. When heated, cocaine base, which has a melting point of 89 to 92 degrees Celsius, will sublime or, put differently, will convert from a solid state to a vapor without becoming a liquid. This allows it to be inhaled. Cocaine hydrochloride, with a melting point of 190 to 195 degrees Celsius, will simply burn at lower temperatures, losing almost all of its psychoactive properties before it ever becomes a vapor.

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## Appendix C: History of Cocaine

The cocaine epidemic of the 1980s was not unprecedented. The United States has previously dealt with the public health concern of cocaine addiction and its concomitant results: rising crime and devastating impact upon social welfare. The following is a condensed history of cocaine in the United States, leading up to the creation of crack cocaine.

### The Origins of Cocaine in America

Natives of the Andes Mountains have used the plants containing cocaine's active ingredient for medicinal and recreational purposes for at least fifteen centuries. The Incas chewed the leaves from the erythroxylon plant to stimulate their productivity and mood. The practice of chewing coca leaves continues today in South American countries with indigenous coca plants.

Processed cocaine hydrochloride was first synthesized by Albert Niemann of the University of Gottigen in Germany in 1859. Cocaine was immediately heralded by European doctors as a wonder drug that cured fatigue, toothaches, headaches and a variety of other ailments. By the late 1880s, cocaine was being hailed both in Europe and the United States as an effective local anaesthetic and a treatment for morphine addiction. Dr. William Halstead, a noted United States physician who later became Surgeon-in-Chief at Johns Hopkins Hospital, became one of the first physicians to use cocaine as a local anesthetic; he would later struggle with an addiction to cocaine.

By the turn of the century, cocaine had become an ingredient in everyday items in the United States, such as hay fever elixirs and nerve tonics. Even Coca-Cola contained cocaine until 1903, when the ingredient was replaced with caffeine.<sup>(1)</sup> By some estimates, the American public was consuming as much cocaine in 1906 as it would in 1976, and with only half the population. But in the wake of the excitement generated by this new "wonder drug" came the scourge of addiction. Tales of cocaine abuse began to proliferate as members of the medical establishment and high society became cocaine addicts. In 1910 President William Taft declared that cocaine was a national threat.

Cocaine was first federally regulated in December 1914, with the passage of the Harrison Act. The Harrison Act banned non-medical use of cocaine; prohibited its importation; imposed the same criminal penalties for cocaine users that were levied against users of opium, morphine, and heroin; and required a strict accounting of medical prescriptions for cocaine. As a consequence of the Harrison Act -- and the emergence in the 1930s of cheaper, legal, and readily available drugs like amphetamines -- cocaine became scarce in the United States. By the 1950s it was no longer considered a problem worthy of law enforcement attention.

Cocaine use began to rise again in the 1960s, prompting Congress, in 1970, to classify it as a Schedule II controlled substance, meaning it was potentially susceptible to abuse and could produce dependency but had legitimate medicinal uses.<sup>(2)</sup> However, it was still not considered by many in the medical profession

to be a serious health threat.<sup>(3)</sup> Even as late as 1980, influential scientific writings reflected the prevailing non-critical assessment of the dangers of cocaine: The 1980 edition of the Comprehensive Textbook of Psychiatry asserted that cocaine posed no serious problem, if use was limited to two or three times a week. Like the cocaine epidemic that occurred at the turn of the century, cocaine once again was embraced by the social elite. The deleterious effects of cocaine that were discovered merely 60 years earlier appeared inexplicably to have been forgotten. However, by the early 1980s, the nation's attitude toward cocaine had changed and various law enforcement and public health efforts intended to control its use were underway.

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1. D. Musto, The American Disease, at 3.
  2. The Controlled Substances Act of 1970.
  3. Dr. Peter G. Bourne, a drug expert who would later become President Carter's Special Assistant to the President on Health Issues, wrote in 1974: "Cocaine ... is probably the most benign of illicit drugs currently in widespread use .... Short acting -- about 15 minutes -- not physically addicting, and acutely pleasurable, cocaine has found increasing favor at all socioeconomic levels in the last year." Peter G. Bourne, "The Great Cocaine Myth," Drugs and Drug Abuse Education Newsletter 5: 5 (1974). See also, F.H. Gawin and H.D. Kleber, "Evolving Conceptualizations of Cocaine Dependence," Yale Journal of Biological Medicine 61: 123-136 (1988).

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## **Appendix D: Enrique Miranda's Entry Into the United States and Return to Nicaragua**

San Jose Mercury News reporter Gary Webb concluded his August 1996 article entitled "America's Crack Plague has Roots in Nicaragua War" by writing that Enrique Miranda, Norwin Meneses' chief accuser in the 1991 prosecution of the two men, failed to return from a weekend furlough to the Nicaraguan jail where he had been incarcerated since 1992, and "has not been seen in nearly a year".

The investigation of Miranda's allegations regarding the ties between the Contras, Meneses, and the CIA, revealed that after Miranda's 1995 escape from the Nicaraguan prison and his arrival in Miami, the DEA began to use Miranda as an active informant. In 1996, the Nicaraguan police tracked down Miranda to Miami, and asked the United States authorities to return Miranda to Nicaragua. The INS, in coordination with the FBI, arrested Miranda for being in the United States illegally, based on Miranda's fraudulently obtained visa. Miranda elected to return to Nicaragua voluntarily, and was sent back to Nicaragua on December 2, 1996, to finish his prison term there.

Miranda has alleged that he was coerced to return to Nicaragua. The INS, DEA, and Nicaraguan authorities deny any coercion. The facts about Miranda's use as a DEA informant while a fugitive from Nicaragua and his eventual return to Nicaragua are addressed in this appendix.

### **I. United States-Nicaragua Extradition Status (DOJ OIA)**

According to the Department of Justice Office of International Affairs, the office that coordinates requests for extradition with foreign countries, a treaty signed in 1905 provides the basis for extradition proceedings between the United States and Nicaragua. Despite the existence of the treaty, there have been no extraditions from Nicaragua in the recent past. The treaty does not allow for Nicaragua to extradite their own citizens to the United States, but, it does allow Nicaragua to request the return of a Nicaraguan citizen from the United States.

The treaty specifies a list of offenses that an individual may be extradited for, rather than the more common "dual criminality" treaty which requires that an offense be criminal under the laws of both countries to be an extraditable offense. The treaty with Nicaragua does not include drug offenses, but two multilateral treaties that Nicaragua has signed amend the 1905 treaty to include drug offenses. Generally, prison escape is not an extraditable offense, but an extradition request could be based on the underlying charge for which the person was in prison at the time of the escape.

If Nicaragua makes a request to the United States for the return of a defendant and provides the appropriate formal request with proper charging papers and other basic information, the return would be made. Such a request would probably be made through the Department of State and eventually executed by the United States Marshals Service. In the absence of an official request, the United States would be under no bilateral treaty obligation to return a Nicaraguan fugitive, and there appears to be no statute requiring the United States to inform a foreign country when a fugitive from that country is discovered

in the United States.

## **II. DEA Policy for Establishing Informants**

DEA's Domestic Operations Guidelines define an "informant" as any person, who under the direction of a specific DEA agent, and with or without expectation of compensation, furnishes information on drug trafficking or performs a lawful service for DEA in its investigation of drug trafficking. A "restricted use informant" is any informant who meets any of the criteria that require that the DEA monitor the informant's activities more closely than another informant, such as informants who are less than 18 years of age, parolees, or have two or more felony convictions. According to the DEA guidelines, if there is reason to believe that an informant has committed a serious criminal offense, the appropriate law enforcement agency having jurisdiction over the crime and the appropriate U.S. Attorney's Office must be notified. DEA procedures also dictate that all informants established by domestic field offices be checked in DEA, FBI, and NCIC files.

While the Domestic Operations Guidelines do not apply to informant development and handling by DEA's foreign offices, they require that the policies be applied in foreign offices to the maximum extent possible, with any deviations specifically approved by DEA Headquarters. All informants established by DEA foreign field offices must be approved by the DEA SAC or Country Attache in that country, and be fingerprinted for identification by the FBI Identification Division. Once one DEA office establishes an informant, a second office can use him concurrently without running a second background check.

Field agents use DEA form 512, entitled "Confidential Source Establishment," to establish an informant. On the form, the agent provides identifying information on the individual, explains the type of source and support for this categorization, records necessary criminal history checks, and obtains the approval of a number of his supervisors, depending on the individual characteristics of each new informant. A copy of the DEA form is then distributed for approval through the agent's supervisors and ultimately to DEA Headquarters. In cases of extreme sensitivity, the SAC may waive the normal distribution of the Form 512 copies.

## **III. DEA Miami Field Division Established Miranda as a Confidential Source**

### **A. Background**

When interviewed by the OIG, Miami Field Division DEA Special Agent Joseph Evans said he had met Miranda through another informant soon after Miranda's arrival in Miami in November 1995. The DEA was interested in Miranda because he was offering his knowledge of Central and South American drug traffickers. Evans confirmed that Miranda told Evans about his past trafficking activities and about his arrest and incarceration in Nicaragua. Miranda said he had paid someone to be able to leave the prison in order to apply for a United States visa, but he did not admit having made false statements in order to obtain the visa. Evans recalled that Miranda was hoping to gain resident alien status in the United States by assisting the DEA. Evans said he told Miranda that the DEA was not going to get involved in

immigration issues; it would be Miranda's responsibility to apply for extensions on his visa.

## **B. Miami DEA's Inquiry Into Miranda's Background**

Evans also told the OIG that, during Miranda's initial interview with the DEA, he presented his Nicaraguan passport with an official United States visa. Evans said that he had someone examine the passport to confirm its authenticity. Evans said that the DEA confirmed that Miranda had an official visa that had been issued "on some glitch." Evans stated that he checked with someone at DEA Headquarters and learned that no extradition treaty exists with Nicaragua, but he could not remember the person or office at Headquarters with whom he spoke. Evans also checked with INTERPOL, which had no records on Miranda. Evans said he did not notify Nicaraguan officials about Miranda because DEA Headquarters, after reviewing the informant paperwork, would normally handle such matters through the U.S. State Department, if necessary. Evans stated that, based on the database of DEA sources, it appeared that Miranda had never previously worked with the DEA.

## **C. Decision to Establish Miranda**

The DEA quickly moved from using Miranda merely as a source of information to using him as an active informant in an investigation into the cocaine smuggling activities of Colombian Luis Alfonso Carvajal and his associates. In early January 1996, SA Evans completed a Confidential Source Establishment form for Miranda. The form indicates that Miranda was to be a Restricted Use Confidential Source. Evans noted:

Although [Miranda] has no criminal record, NADDIS indicates that he was arrested in Nicaragua in 1991 for drug trafficking and is a fugitive of Nicaragua. However, there is no existing extradition treaty with Nicaragua and the C/S is in the U.S. legally.

The form also indicated that a criminal history check of NADDIS, NCIC and INTERPOL had been conducted with negative results.

Evans told the OIG that he had established Miranda as a informant based on the information that Miranda had no United States criminal history, and was not wanted by INTERPOL, and that no extradition treaty existed to require the return of Miranda to Nicaraguan authorities. Evans said that he took the extra precaution of establishing Miranda as a "restricted use source" because of Miranda's fugitive status, which warranted a closer watch.

When interviewed by the OIG, DEA Special Agent George Papantoniou, who, as Evans' Group Supervisor had approved Evans' decision to establish Miranda, recalled knowing that Miranda was a fugitive from Nicaragua, but that he also had legal United States immigration status, no criminal history in the United States, no "wants" on INTERPOL, and was not extraditable. According to Papantoniou, Miranda was established as a "restricted source" probably because of his prior drug conviction.



## **D. INTERPOL Records**

The OIG contacted INTERPOL to determine if Miranda had a warrant lodged against him after his escape. If, when DEA conducted their background check of Miranda, INTERPOL contained a notice that Miranda was a fugitive, the DEA may have had an obligation to notify the Nicaraguan authorities of Miranda's whereabouts.

Our request for copies of all warrants against Miranda was forwarded to INTERPOL Managua by the INTERPOL U.S. National Central Bureau. Managua responded by providing an October 8, 1996 request for assistance in locating Miranda's wife (who was believed to be residing in the United States) in an apparent attempt to locate Miranda, who is described in the communication as the "subject" and a fugitive from Nicaraguan justice. Although this INTERPOL communication did indicate Miranda's fugitive status, it was not entered until more than ten months after Miranda's escape, and more than nine months after the DEA had checked Miranda's background. Thus, there is no evidence that DEA ignored information regarding Miranda's fugitive status that was available.

## **IV. Miranda as a DEA Informant**

Once it had established Miranda as an informant, DEA's Miami Field Division sent him to Panama, Costa Rica, and Colombia to infiltrate trafficking networks there. But this operation never came to fruition. According to the DEA, efforts to use him in Miami did not amount to much, either. SA Jose Delgado, one of Miranda's handlers, later noted to the OIG that while Miranda was in prison, drug trafficking methodologies had changed from aircraft to sea transport, and Miranda did not have the necessary knowledge to be of assistance to DEA operations.

When interviewed by the OIG, Miranda recalled Evans having told him that there would be coordination with the INS and the U.S. Customs Service to allow Miranda to reenter the United States whenever he traveled on behalf of the DEA. Nonetheless, INS personnel often stopped Miranda when he returned to the United States, and he would have to call SA Evans for assistance. SA Evans told the OIG that the DEA does not typically make arrangements for their informants to enter into countries, because targeted traffickers will often tail the informants to verify their bona fides.

DEA's confidential source database indicates that Miranda is still active, and Miranda has told the OIG that, as far as he is concerned, he is still working for the DEA. However, all DEA agents interviewed by the OIG have stated that Miranda is not currently being used as an informant.

The OIG's investigation made clear that the DEA used Miranda as a informant for almost one year with full knowledge that he was a fugitive from Nicaragua. Although probably due to the infrequent use of the existing treaty, it appears from the interviews that OIG conducted with DEA personnel that there is the mistaken belief that no extradition treaty exists between the United States and Nicaragua. Moreover, their lack of knowledge about the treaty would not have made a difference, because Nicaragua made no formal request for Miranda's extradition when DEA began using him.

There is also no formal requirement, either by statute or under DEA written policy, for an agent of the DEA to notify a foreign country when a fugitive from that country is discovered, or to refrain from using that fugitive as an informant. While this issue should be addressed by DEA, it may not have made any difference in this case, because SA Evans did check the INTERPOL system to see if Nicaragua was seeking Miranda's return and found no requests for Miranda.

## **V. Miranda's 1996 Arrest in Miami**

### **A. The Arrest**

Nicaraguan National Police Sub-Director Eduardo Cuadra Ferrey told the OIG that, soon after Miranda's escape, the National Police began contacting law enforcement officials in neighboring countries. With help from authorities in Costa Rica, Cuadra tracked Miranda to Miami. He then waited for Miranda's visa to expire, and worked with FBI Supervisory Special Agent Fernando Rivero to ensure that Miranda would be returned to Nicaragua. On December 2, 1996, the INS, in coordination with the FBI, arrested Miranda for being in the United States illegally, based on Miranda's fraudulently obtained visa. FBI and INS files indicate that Miranda was taken to Metro-Dade Police Department in Miami and advised of his illegal immigration status in the United States and the charges he faced in Nicaragua. He then elected to return to Nicaragua voluntarily, signing forms agreeing to a voluntary departure.

Miranda told the OIG that, on December 2, 1996 in Miami, the FBI came to his home in the early morning, pointed guns at the house, and ordered him to open the door. He asked the FBI if he could call DEA agents Evans or Delgado, and was told he was not allowed to. He was then taken to the Miami police station, where an INS agent told him that he was being arrested as an illegal immigrant, and he was shown a legal order from Nicaragua requesting his return. Miranda said that SA Evans arrived at the police station and told Miranda not to worry, because he would not be taken back to Nicaragua. Miranda asked to call his attorney, Alejandrina Cruz, but he was not allowed to do so.

SA Evans told the OIG that he found out about the arrest from a telephone call from Miranda's wife, who told him that her husband had been arrested by the FBI for immigration problems and was going to be deported. Miranda's wife asked Evans to contact FBI SA Rivero. Rivero confirmed that Miranda had been arrested because his visa had just expired, and that the Nicaraguan police were in the United States to take him back. Rivero noted that if Miranda did not go back to Nicaragua, it might make it harder for the DEA to open a new office in that country. When Evans arrived at Metro-Dade police Headquarters, Nicaraguan police officials were in a room with Miranda, and an INS agent told Evans that Miranda had signed a voluntary departure form. Evans became angry because foreign police had been allowed to interview Miranda before anyone had checked his claim that he was a DEA informant. Evans believed that this was contrary to proper procedures. Evans did not know how the Nicaraguans knew Miranda was in Miami.

### **B. Miranda's Allegations Relating to His Arrest**

## 1. Coerced to Sign Voluntary Departure

While admitting that he signed a document agreeing to voluntary departure, Miranda told the OIG that INS Officer "Curtis" [Clark] had "forced" him to sign by telling him that if he did not, Curtis would arrest Miranda's wife and children and deport them all. Only Curtis and Cuadra were present during this conversation. Miranda said that Curtis also told him that if he signed the document then he would eventually be allowed to reenter the United States, but if he did not, he would never be allowed to enter again.

Cuadra told OIG investigators that Miranda had opted to depart the United States voluntarily when given the alternative of being processed through INS deportation proceedings according to regulations. SA Evans recalled that he had met with Miranda alone and had advised him that he should request an INS hearing. Miranda had appeared terrified and said that it was better to return and face the charges in Nicaragua. Evans said Miranda made no claims that he was coerced into signing the form.

Miranda's INS file contains a telefax cover sheet attached to the case report on Miranda's arrest and departure. On it, INS Supervisory Special Agent Bill West wrote that Miranda's "wife, per Clark, is an illegal Nicaraguan [her Alien number] who has not yet been [ordered to show cause]." This appears to indicate that Miranda's wife was also in a position to be deported, but that Clark had not initiated the proceedings.

SA Clark told the OIG that he did not coerce Miranda into signing the voluntary waiver, and explained that it did not matter to him whether Miranda returned voluntarily or through normal deportation procedures. Clark said that he did take Miranda's wife's passport after determining that she was in illegal alien status. Within a few days of the arrest, Clark returned the passport to DEA SA Evans, who returned it to Miranda's wife. Clark said that because she was a non-criminal alien and had at least one child in school, he did not detain her but instead told her to report to his office later for initiation of deportation proceedings. Clark thought that this was a standard INS procedure with non-criminal aliens. He said that, not surprisingly, Miranda's wife did not report back to his office.

In short, the weight of the evidence, particularly Evans' account, does not corroborate Miranda's allegations that threats were made and that he was coerced into signing the voluntary departure form.

## 2. Miranda's Personal Papers

As noted above, Miranda later claimed in his interview with Representative Waters that a letter written by Norwin Meneses, which suggested a connection between Meneses and the CIA, was included in materials he left in Miami after his arrest and that these materials were returned to his wife by the FBI. In fact, Miranda's wife gave the documents to the DEA.

SA Evans told the OIG that, soon after Miranda had left the United States, Evans called Miranda's wife to return her passport. She informed him that her husband had a briefcase of documents in the house.

Evans told the OIG that he sent an informant to the Miranda residence to pick up the briefcase and to pay his wife for telephone calls Miranda had made in connection with his work for DEA. Evans then sent the briefcase and its contents to Agent Delgado in New Orleans. At the request of the OIG, Agent Delgado provided the contents of that briefcase to the OIG. We reviewed them and found no letter written by Meneses.

## **VI. Conclusion**

With regard to the DEA's use of Miranda when it knew he was a fugitive from Nicaragua, we found that the agents who established him performed the required background investigation, followed DEA procedures, and checked into the possibility that Miranda was to be returned under the authority of an extradition treaty. Although the agents were incorrect in their belief that an extradition treaty does not exist between the United States and Nicaragua, no extradition request was made by Nicaragua in this case and, at the time that DEA queried INTERPOL, they did not acquire information indicating that Miranda was wanted by Nicaraguan authorities.

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## **Appendix E**

### **TIMELINE OF SIGNIFICANT EVENTS RELATED TO DANILO BLANDON**

#### **DATE -- EVENT**

1951 -- Blandon born in Nicaragua.

June 1979 -- Blandon flees Nicaragua with his family to the United States, and moves to Los Angeles.

February 1980 -- Blandon applies for political asylum in the United States.

1980 or 1981 -- Blandon attends meetings of Contra support group in Los Angeles.

1982 -- Blandon meets Meneses, who asks Blandon to sell drugs, with the profits going to the Contras.

1983 -- Blandon breaks with Meneses and continues selling drugs for his own profit.

Late 1983 or 1984 -- Blandon starts selling cocaine to Ricky Ross.

August 1985 -- Blandon's asylum request is granted.

July 1986 -- Meneses approaches Costa Rica DEA and offers to cooperate.

July 1986 -- Confidential informant provides information to FBI Riverside about Blandon's drug trafficking organization.

September 1986 -- Confidential informant provides information to DEA Riverside about Blandon's drug trafficking organization. The DEA opens a case targeting "Blandon, and his associates and sources of supply."

September 1986 -- Los Angeles Sheriff's Department (LASD) opens an investigation against the Blandon organization based on informant information.

October 1986 -- LASD, FBI, and DEA exchange information about Blandon's organization and conduct surveillances.

October 27, 1986 -- LASD executes search warrants on residences and businesses of Blandon and his associates, seizing records but negligible amount of drugs.

October 31 to November 3, 1986 -- FBI and DEA copy records seized by LASD during searches.

November 10, 1986 -- Riverside FBI initiates a case on Blandon, Lister, Meneses, and 1986 their associates.

November 1986 -- Based on Ronald Lister's statements about alleged connections to CIA during the October searches, FBI asks CIA if it has operational interest in Lister, Blandon, Meneses, and others in Blandon organization.

December 1986 -- CIA responds to FBI's inquiry about subjects of investigation, stating they had little information on them, and no information on Blandon or Lister

December 1986 -- FBI and DEA continue investigation of Blandon and prepare submission of case to federal OCDETF committee in Los Angeles for designation as a federal task force case.

December 22, 1986 -- Meneses and DEA informant travel to Los Angeles on behalf of DEA to engage in undercover meetings with drug dealers.

January 1987 -- Meneses and DEA informant meet undercover with Blandon and associates.

January 14, 1987 -- FBI and DEA debrief DEA informant in Los Angeles. Later, DEA informant and Meneses return to Costa Rica.

January 14, 1987 -- FBI, DEA, and LASD meet with Los Angeles District Attorney's office about case against Blandon. Agreement that case should be pursued by federal authorities.

January 21, 1987 -- Blandon case formally accepted as a federal OCDETF task force case in Los Angeles.

February 1987 -- San Francisco U.S. Attorney's Office (USAO) and San Francisco FBI agree to defer prosecution of Meneses in San Francisco for drug trafficking, pending the outcome of the Los Angeles OCDETF investigation of the Blandon organization.

March-July 1987 -- OCDETF investigators attempt to get Meneses and DEA informant to return to the United States to work on the Blandon investigation.

May 1987 -- Blandon relocates to Miami, Florida.

July 1987 -- DEA informant returns to Los Angeles and meets with DEA and FBI OCDETF investigators, but informant refuses to testify.

July 17, 1987 -- Los Angeles USAO declines prosecution in the OCDETF case because of inability of investigative techniques to adequately prove criminal violations.

July 24, 1987 -- DEA Costa Rica formally establishes Meneses as a DEA informant.

September 1988 -- Bandon applies for Legal Permanent Residence (LPR) status in the United States.

1990 -- Bandon returns to Los Angeles and engages in drug dealing there.

December 1990 -- OCDETF case opened against Bandon in San Diego.

1991 -- Bandon moves to San Diego.

August 26, 1991 -- In a random search of southbound cars crossing the border, U.S. Customs in San Diego arrests Bandon and companion with undeclared currency. Bandon is not charged.

December 9, 1991 -- Los Angeles Police Department arrests Bandon with a large amount of cash, but drops the money laundering charges against him because of the ongoing San Diego OCDETF investigation.

May 5, 1992 -- Bandon is indicted by federal grand jury in San Diego on drug conspiracy charges as a result of the San Diego OCDETF investigation.

May 15, 1992 -- DEA arrests Bandon on the federal indictment. Bandon is held without bail, and several weeks later, Bandon begins to cooperate with DEA.

October 13, 1992 -- Bandon enters into a plea agreement with the government.

November 1992 -- Bandon's wife and daughter receive legal permanent resident status.

December 20, 1993 -- Bandon receives a reduced sentence of 48 months and 5 years probation based on his substantial assistance to the government.

September 1994 -- San Diego USAO files a motion asking the court to reduce Bandon's sentence further based on his continued cooperation. The court reduces Bandon's sentence to time served, and Bandon is released after having served 28½ months in prison.

October 1, 1994 -- Bandon receives legal permanent resident status from the INS.

March 1995 -- Ricky Ross is arrested by DEA in San Diego after selling drugs to Bandon and an undercover DEA officer.

August 1996 -- Publication of San Jose Mercury News articles.

December 1996 I-- NS moves to rescind Blandon's LPR status.

## **TIMELINE OF SIGNIFICANT EVENTS RELATED TO NORWIN MENESES**

### **DATE -- EVENT**

1943 -- Meneses born in Nicaragua.

1963-64 -- Meneses is arrested and convicted in San Francisco for shoplifting, misuse of slot machines, and statutory rape.

1976 -- Nicaraguans arrest Meneses for car theft but later release him.

1976-1980 -- DEA receives information that Meneses is a drug trafficker in Nicaragua and is smuggling cocaine to the United States.

July 1980 -- San Francisco DEA Special Agent Smith opens a case against the Meneses organization.

September 11, 1980-- Meneses is denied admission to the U.S. at San Ysidro because he lacks a valid visa.

September 1981 -- Smith opens another case against the Meneses organization.

November 1981 -- DEA and local police arrest Jairo Meneses but prosecution is declined since no narcotics were found at his residence.

May 1982 -- Smith opens a case on Roger Meneses, who is arrested and pleads no contest to possession of marijuana.

January 1983 -- Smith opens a case on Ernesto Meneses, but develops no evidence and later closes the case.

1983 -- San Francisco U.S. Attorney's Office (USAO) declines an IRS tax case against Meneses due to weak or insufficient evidence.



October 1983 -- DEA San Francisco opens another case against Roger Meneses and his associates. By February 1984, nine persons are arrested, including Roger Meneses, who receives a six-year sentence.

January 1984 -- DEA San Francisco opens a case on the Meneses organization, including Norwin and Jairo Meneses.

November 27, 1984 -- DEA San Francisco arrests Jairo Meneses and Renato Pena. After the arrest, Norwin Meneses flees to Costa Rica.

January 23, 1985 -- DEA San Francisco opens another case on Norwin Meneses.

July 1986 -- Meneses approaches DEA office in Costa Rica and offers to cooperate.

Fall 1986 -- FBI San Francisco begins collecting information on Meneses to build a historical drug trafficking case against him.

December 22, 1986 -- Meneses and DEA informant travel to Los Angeles on behalf of DEA.

January 1987 -- Meneses and DEA informant meet undercover with Blandon and associates.

January 14, 1987 -- FBI and DEA debrief DEA informant in Los Angeles. Later, informant and Meneses return to Costa Rica.

February 1987 -- San Francisco USAO and San Francisco FBI agree to defer prosecution of Meneses in San Francisco pending the outcome of the Los Angeles investigation of Blandon in which Meneses was being used as an informant.

March-July 1987 -- Los Angeles OCDETF investigators attempt to get Meneses to return to the United States to work on the Blandon investigation, but are not successful.

July 1987 -- DEA informant returns to Los Angeles and meets with DEA and FBI there, but refuses to testify.

July 17, 1987 -- Los Angeles USAO declines prosecution in the Blandon OCDETF case because of inability of investigative techniques to adequately prove criminal violations.

July 24, 1987 -- DEA Costa Rica formally establishes Meneses as a DEA informant.

September 1987 -- Meneses travels to the United States on behalf of DEA to work undercover cases.

November 1987 -- Meneses returns to the United States on behalf of DEA to work undercover cases.

July 1988 -- Meneses returns to the United States on behalf of DEA to work undercover cases.

September 1988 -- Meneses attempts to enter the United States, claiming to be working on a DEA case. He is denied entry.

February 8, 1989 -- Federal grand jury in San Francisco indicts Meneses on cocaine trafficking charges based on his 1984 and 1985 activities. Indictment is sealed.

April 12, 1989 -- Arrest warrant for Meneses is entered into FBI's law enforcement database. FBI opens a fugitive file on Meneses.

May-August 1989 -- Meneses travels to United States on behalf of DEA to work undercover cases.

June 1989 -- FBI San Francisco receives information that Meneses is residing in Costa Rica and asks the FBI Panama Legat, which covers Costa Rica, to try to locate him through DEA.

October 1989 -- FBI sends another cable to the FBI Legat in Panama regarding Meneses.

December 23, 1989 -- DEA Costa Rica deactivates Meneses as a CI.

January 1990 -- Assistant Legat in Mexico City, who is given responsibility for Costa Rica because of political turmoil in Panama, contacts DEA Costa Rica about Meneses.

May 10, 1990 -- DEA Costa Rica reactivates Meneses as an informant.

August 16, 1990 -- DEA Costa Rica deactivates Meneses as a CI.

December 31, 1990 -- DEA San Francisco initiates another case against Meneses based on new informant information.

September 1991 -- Based on information gathered by DEA Guatemala, DEA cases are opened in Guatemala, Houston, and Los Angeles targeting Meneses and Enrique Miranda.

September 1991 -- DEA Costa Rica reports that Meneses had recently contacted it and offered to provide information about a large cocaine smuggling case. DEA special agent meets with Meneses several times in Managua.

November 3, 1991 -- The Nicaraguan National Police arrest Meneses, Miranda, and three others in Managua for drug trafficking in Managua.

August 16, 1992 -- Meneses is convicted in Nicaragua and sentenced to 25 years in prison. His sentence

is later reduced to 12½ years.

May 25, 1995 -- FBI San Francisco places Meneses case in "pending" status.

November 14, 1997 -- Meneses is released from Nicaraguan prison.

## **TIMELINE OF SIGNIFICANT EVENTS RELATED TO RONALD LISTER**

### DATE -- EVENT

1967-1968 -- Lister is employed at the Los Angeles Sheriff's Department (LASD).

1969-1973 -- Lister works as a police officer in the Maywood, California Police Department.

1973-1980 -- Lister works as a police officer in the City of Laguna Beach, California Police Department.

June 1980 -- Lister leaves the Police Department and begins a private security business.

1981 -- Lister and Blandon meet.

1982 -- Lister and Meneses meet through Blandon. Lister, Blandon, and Meneses attempt to sell weapons in El Salvador.

1983 -- FBI investigates Lister's security company Pyramid International Security Consultants.

1984 -- FBI investigates Lister regarding a violation of U.S. export laws.

1985 -- ATF investigates Lister regarding illegal arms sales.

July 1986 -- FBI opens file on Lister regarding a foreign counterintelligence matter.

October 27, 1986 -- LASD executes search warrants on Blandon organization. LASD finds no drugs but seizes various documents relating to Lister's business. Deputy sheriffs state that Lister referred to his CIA contacts at the time of the search.

November 1986 -- Based on Lister's statements about alleged connections to CIA and other intelligence agencies, FBI asks CIA if it had operational interest in Lister and others in the Blandon organization. CIA responds that it has no information on Lister.

July 1987 -- Federal OCDETF case against Blandon organization is closed, but tax investigation of Lister continues.

August 24, 1988 -- Lister is arrested by Costa Mesa police for selling two kilograms of cocaine to an undercover police officer. Lister's house is searched and his expired police badge and credentials are found. Lister agrees to work as an informant for the Costa Mesa police.

October 23, 1989 -- Lister is arrested by DEA San Diego for supplying two kilograms of cocaine to a person who sold the drugs to an undercover officer. Lister agrees to cooperate with DEA.

June 8, 1990 -- Lister enters into a formal cooperation agreement with San Diego USAO.

December 20, 1990 -- Lister is released from prison to cooperate with DEA.

January 22, 1991 -- Lister pleads guilty to drug charges as a result of his October 23, 1989 arrest.

April 22, 1991 -- Lister pleads guilty to tax fraud for filing false tax returns in 1985 and 1986.

July 22, 1991 -- DEA executes a search warrant on the Markon Corporation where Lister was working while he was out on bail. Seized evidence indicates that Lister was still engaged in illegal activities, including money laundering, and Lister is rearrested.

July 1991 -- San Diego USAO moves to revoke Lister's bail.

January 15, 1992 -- Lister is sentenced to 97 months prison and 60 months probation.

January 28, 1993 -- Appeals court overturns Lister's conviction on tax charges but affirms his conviction and sentence on drug charges.

June 1996 -- Lister is released from prison.

## **TIMELINE OF SIGNIFICANT EVENTS RELATED TO RICKY ROSS**

### **DATE -- EVENT**

1979 -- Ross enrolls in Los Angeles Trade Technical College.

1981 or 1983 -- Ross begins dealing cocaine in the Los Angeles area.

1983 or 1984 -- Ross begins purchasing cocaine from Danilo Blandon.

1985 -- Los Angeles County Sheriff's Department (LASD) begins first, unsuccessful investigation of Ross for drug trafficking.

October 1986 -- Ross is arrested in Los Angeles on federal charges for conspiracy to distribute cocaine in St. Louis, Missouri. The case is dismissed for lack of evidence.

January 1987 -- LASD and Los Angeles Police Department (LAPD) form a task force targeting Ross, which becomes known as the "Freeway Ricky Task Force."

April 1987 -- Ross is arrested for allegedly dropping a kilo of cocaine while fleeing on foot from task force officers and for allegedly shooting at an officer. The charges were later dismissed for police misconduct.

1987 -- Ross moves to Cincinnati, Ohio and continues drug trafficking there.

March 1988 -- An Organized Crime and Drug Enforcement Task Force (OCDETF) case is initiated against the "Ricky Ross organization" in Seattle, Washington, but he is not prosecuted there.

April 1988 -- Ross is identified, but not prosecuted, as source of cocaine for an Oklahoma City dealer supplying gangs in Seattle.

April 26-27, 1989 -- Ross is alleged to have sold 7.3 kilograms of cocaine in Dayton, Ohio and to have asked an informant to run a crack house.

June 1989 -- Ross and nine others are indicted on drug charges in Cincinnati.

September 5, 1990 -- Ross pleads guilty to drug charges in Cincinnati.

May 1990 -- Ross begins cooperating with Los Angeles United States Attorney's Office in the "Big Spender" cases involving corrupt Los Angeles deputy sheriffs.

February 8, 1991 -- Ross is sentenced in Cincinnati to 121 months incarceration and three years supervised release.

August 1991 -- Ross testifies for the prosecution in one of the "Big Spender" trials.

February 5, 1992 -- Los Angeles Assistant U. S. Attorney (AUSA) advises Cincinnati AUSA by letter of Ross' cooperation in the "Big Spender" trials.

February 7, 1992 -- Cincinnati AUSA files motion for downward departure to Ross' sentence in Cincinnati.

March 25, 1992 -- The federal court in Cincinnati reduces Ross' sentence to 51 months, to be followed by three years supervised release.

November 1993 -- While still in federal prison, Ross is arrested on Texas state warrant for conspiracy to possess cocaine. Ross pleads no contest, and is sentenced to ten years, to run concurrently with his federal sentence in Cincinnati.

November 1993 -- Ross completes his federal sentence and is transferred to a Texas state prison, where he begins serving nine months.

September 1994 -- Ross is paroled by State of Texas and released from prison.

October 16, 1994 -- Ross calls Bandon collect in Nicaragua and they discuss a drug deal. At this time, Bandon is working undercover for the DEA.

December 4, 1994 -- Ross returns a call from Bandon, and requests six kilograms of cocaine.

December 16, 1994 -- Ross introduces Bandon, who is in Los Angeles, to "Chris," who asks Bandon to deliver 50 kilograms of cocaine to Atlanta, Georgia. Ross tells Bandon that Chris would be in charge of the business, but that Ross would remain in charge of the money.

February 23, 1995 -- Ross negotiates a 100 kilogram cocaine deal with Bandon involving a \$200,000 downpayment.

March 2, 1995 -- Ross and others are arrested in Chula Vista, California, during the delivery of the 100 kilograms of cocaine to Bandon and a DEA undercover officer.

March 19, 1996 -- Ross is convicted by a federal jury on cocaine conspiracy and distribution charges.

September 9, 1996 -- Ross' defense counsel files a motion to dismiss Ross' conviction and a motion for the production of certain evidence.

November 19, 1996 -- Ross is sentenced to a mandatory sentence of life imprisonment based on his two prior felony convictions.

## **TIMELINE OF SIGNIFICANT EVENTS**

## **RELATED TO ENRIQUE MIRANDA**

### **DATE -- EVENT**

1958 -- Miranda born in Managua, Nicaragua.

1977 -- Miranda joins the Frente Sandinista de Liberacion Nacional (FSLN).

1979 -- Miranda's request to resign from FSLN is denied and he is sent to Bulgaria and Cuba to study military intelligence. Upon his return he was named head of military intelligence operations.

1981 -- Sandinistas tell Miranda to recruit Norwin Meneses to smuggle drugs for the Sandinistas.

1982-1985 -- Miranda directs Sandinista cocaine smuggling into the U.S.

1985 -- Miranda resigns from the FSLN. Miranda allegedly makes contact with U.S. Embassy and CIA personnel in Nicaragua and Panama. He states that after he refuses to make a public declaration about Sandinista military strength, his relationship with the CIA was terminated.

September 1985 -- Miranda returns to Nicaragua, is arrested by the Sandinistas for treason, and is incarcerated.

1989 -- Miranda is released from prison for medical reasons and ordered to a military disciplinary unit, from which he subsequently escaped.

November 3, 1991 -- Miranda and Meneses are arrested in Nicaragua for cocaine trafficking.

1992 -- Miranda testifies against Meneses in his trial in Nicaragua.

August 1992 -- Miranda is sentenced to fourteen years in a Nicaraguan prison.

July 1995 -- Still incarcerated, Miranda somehow obtains a passport from Nicaraguan authorities.

November 13, 1995 -- While on a weekend medical pass, Miranda fraudulently obtains a visa from the United States consulate in Nicaragua, and fails to return to prison.

November 1995 -- Miranda travels to the United States via Costa Rica.

January 5, 1996 -- Miranda is established by the DEA in Miami as a confidential source.

May 3, 1996 -- Miranda is debriefed by the DEA in Costa Rica.

November 21, 1996 -- Nicaraguan National Police (NNP) contacts Miami FBI seeking Miranda's arrest.

December 2, 1996 -- Miranda is arrested at his residence in Miami for being in the United States illegally, based on his fraudulently obtained visa. Miranda signs voluntary departure form and returns to Nicaragua in the custody of the NNP.

December 1996 -- Miranda is returned to Nicaragua prison and receives an additional sentence of fifteen months for his attempted escape.

December 23, 1996-- Two DEA agents meet with the NNP and Miranda in Managua.

January 3, 1997 -- U.S. Representative Maxine Waters interviews Miranda in prison in Nicaragua.

July 1997 -- Nicaraguan judge who imposed the additional sentence grants Miranda's conditional freedom on medical grounds. Nicaraguan judge who imposed the original sentence subsequently blocks Miranda's early release.

## **TIMELINE OF SIGNIFICANT EVENTS RELATED TO JULIO ZAVALA AND CARLOS CABEZAS**

### **DATE -- EVENT**

January 1982 -- OCDETF investigation initiated against Julio Zavala, Carlos Cabezas, and others for trafficking cocaine in the San Francisco area.

January 17, 1983 -- Twelve persons, some in wetsuits, arrested while attempting to unload 430 pounds of cocaine from a Colombian vessel in San Francisco Bay. The case becomes known as the "Frogman case."

February 15, 1983 -- Zavala, Cabezas, and others are arrested in San Francisco pursuant to warrants. \$36,020 is seized from Zavala's house at the time of his arrest.

June 4, 1984 -- Zavala's attorney submits to the court signed documents from two Contra leaders in Costa Rica stating that the money seized from Zavala's house was Contra money. Zavala's attorney requests leave to take depositions of the Contra leaders in Costa Rica.

June 22, 1984 -- The court grants the motion to take the depositions.



July 6, 1984 -- Zavala pleads guilty to one count of possession with intent to distribute cocaine.

July 25, 1984 -- Assistant U. S. Attorney (AUSA) handling the case begins preparations to travel to Costa Rica for the depositions.

July 30, 1984 -- CIA learns of the proposed depositions in Costa Rica. It mistakenly believes that one of the persons to be deposed is a former CIA asset. In fact, the person to be deposed was someone else, and not a CIA asset.

August 2, 1984 -- Memorandum written by a CIA employee stating that she and lawyer from CIA Office of General Counsel are scheduled to meet with the prosecutor on August 7, 1984.

August 1984 -- CIA representative meets with the AUSA handling the case.

August 24, 1984 -- A cable written by the CIA representative who met with the AUSA states that the depositions in Costa Rica were canceled at the request of the CIA and with the concurrence of the AUSA.

October 2, 1984 -- Check in the amount of \$36,800 is delivered to Zavala's attorney.

November 1984 -- San Francisco U.S. Attorney's Office (USAO) tries Zavala on several remaining charges against him.

November 27, 1984 -- While testifying for the prosecution in Zavala's trial, Cabezas claims that he was told by one of his cocaine suppliers that the money the supplier made in drug trafficking was being used to help the Contras.

March 29, 1985 -- Zavala is convicted by the court of six criminal charges, including a continuing criminal enterprise charge.

March 16, 1986 -- The San Francisco Examiner publishes an article which suggested a "link" between defendants in the Frogman case and groups associated with the Contra revolution, and also suggested that the USAO returned the money seized from Zavala because it was Contra money.

March 19, 1986 -- U.S. Attorney Russoniello writes a letter to the San Francisco Examiner about the return of the money and the prosecution of Zavala.

October 8, 1987 -- Cabezas claims in an interview with the FBI that beginning in December 1981 he had participated in a cocaine trafficking enterprise for the benefit of the Contras.

January 28, 1988 -- In an interview with the FBI, Zavala denies involvement in drug trafficking for the

Contras.

## **TIMELINE OF SIGNIFICANT EVENTS RELATED TO FORMER DEA SPECIAL AGENT CELERINO CASTILLO, III**

### DATE -- EVENT

1979 -- Enters on duty with the Drug Enforcement Administration (DEA), first assignment is in New York City.

October 1985 -- Transfers to the DEA Office in Peru.

August 1986 -- Transfers to the DEA Office in Guatemala City, Guatemala.

September 1986 -- The Salvadoran police serve a search warrant on Walter Grasheim's residence in El Salvador.

October 1986 -- Castillo opens the investigation concerning Walter Grasheim and Ilopango Airport.

November 1986 -- Case closing report is issued on the Grasheim investigation.

February 1987 -- Doug Everett, DEA, Intelligence Analyst, travels to Central America to evaluate allegations linking various Nicaraguan political organizations to the drug trade.

April 1989 -- Castillo and deTriquet are allegedly denied access into CIA hangar at the Ilopango Airport.

December 1991 -- DEA moves to have Castillo removed from his position as a DEA criminal investigator based on various misconduct allegations.

June 1992 -- Castillo accepts a disability retirement in lieu of the proposed removal.

1994 -- Castillo publishes his book: Powderburns: Cocaine, Contras & the Drug War.

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## **Appendix F**

### **GLOSSARY OF TERMS AND NAMES**

**A-FILE** -- Alien file, Immigration and Naturalization Service

**AGUADO, Marcus** -- Contra pilot at Ilopango Airport, alleged drug trafficker, and reportedly Eden Pastora's representative in El Salvador

**AGUILAR, Roberto** -- One of Blandon's associates in Los Angeles

**ALBA, David E.** -- FBI agent on the "Frogman Case"

**ALLARD, Ed** -- Assistant United States Attorney in the San Diego U.S. Attorney's Office, Chief of the Narcotics and Dangerous Drug Section

**AMADOR, Carlos** -- Contra pilot who used Ilopango Airport in El Salvador

**ANDERSEN, Crossan** -- Los Angeles Assistant United States Attorney who supervised the Blandon OCDETF investigation in 1987

**ARDE** -- Alianza Revolucionaria Democratica, Democratic Revolutionary Alliance, the Southern Front of the Contra movement

**ASAC** -- Assistant Special Agent in Charge

**ASSET** -- An individual, paid or unpaid, used by the CIA to provide services or information, generally not on a permanent basis

**ATF** -- Bureau of Alcohol, Tobacco and Firearms

**AUKLAND, Douglas** -- FBI agent who investigated Blandon in the Los Angeles OCDETF case in 1987

**AUSA** -- Assistant United States Attorney

**AVILES-Saenz, Francisco** -- Political Secretary of the PCNE and one of the individuals who signed documents stating that Julio Zavala had received \$45,000 from the PCNE

**AVRIGAN, Tony** -- A journalist who, with Martha Honey, filed a 1986 civil lawsuit against several defendants for damage done to them by the defendants' alleged conspiracy to violate the Neutrality Act

BALLADARES, Leysla -- Sister of Danilo Blandon

BARENG, Rudy -- DEA agent who participated in the investigation of the Blandon organization in Los Angeles, California

BERMUDEZ, Enrique -- A leader of the FDN's military effort

BERRELLEZ, Hector -- DEA agent who assisted in the execution of the search warrants on the Blandon organization in October 1986 by the LASD deputies, now retired

"BIG SPENDER CASES" -- Series of eleven trials against corrupt LASD deputies prosecuted by the Los Angeles U.S. Attorney's Office, beginning in 1990

BLANDON, Adolfo O. -- Chief of Staff of the Salvadoran Armed Forces in the mid-1980s

BLANDON, Chepita -- Wife of Danilo Blandon

BLANDON, Danilo -- Came to United States from Nicaragua in 1979, drug trafficker in Los Angeles, supplied cocaine to Ricky Ross, in 1992 arrested and convicted on drug trafficking charges in San Diego

BOLANOS, Jose Orlando -- Nicaraguan national and self-proclaimed "Commander-in-Chief of the partisan army in Nicaragua," approached FBI and DEA undercover agents with a plan to sell cocaine to support his military venture against the Sandinista regime

BOLAND AMENDMENT -- Congressional law limiting funding to the Nicaraguan Contras in 1984

BRAUN, Harlan -- Defense attorney in the corruption trials of the LASD deputy sheriffs beginning in 1990, raised the allegation of CIA involvement in laundering drug money

BRUNON, Bradley -- Danilo Blandon's attorney

BRYANT-DEASON, Susan -- Former Los Angeles Assistant District Attorney who was consulted about the unsuccessful 1986 LASD searches on the Blandon organization

BYRNE, Mark -- Los Angeles Assistant United States Attorney who handled the prosecution of Ronald Lister for tax violations

CA -- DEA Country Attache

CABEZAS, Carlos -- Drug trafficker convicted in the "Frogman Case" in San Francisco in 1984

CALERO, Adolfo -- Leader of the FDN wing of the Contra movement

CALERO, Mario -- Contra official and brother of Adolfo Calero

CASTILLO, Celerino -- DEA agent who initiated investigations into alleged Contra drug trafficking at Ilopango Airport, alleged that the Contras were trafficking drugs with the knowledge of the CIA, now retired

CCE -- Continuing Criminal Enterprise, a federal criminal statute

CEPPOS, Jerry -- Executive Editor of the San Jose Mercury News

CESAR, Octaviano -- Contra leader

CHAMARRO, Adolfo -- a.k.a. "Popo," ARDE Chief of Logistics, 1982-1985

CHAMARRO, Roberto -- a.k.a. "Tito," FRS official in the mid-1980s

CI -- Confidential Informant

CIA -- Central Intelligence Agency

CIPA -- Classified Information Procedures Act

CLARK, Curtis -- INS agent who arrested Miranda in 1996

CLEMENTS, Donald -- DEA Country Attache in Costa Rica, 1980-1985, now retired

CONTRA -- *Contrarevolucionario*, the Nicaraguan resistance movement against the Sandinista government in the 1980s

CORNEJO, Rafael -- Convicted drug trafficker who alleged that Blandon and Meneses had a Contra connection

CORR, Edwin -- United States Ambassador to El Salvador, 1985-1988, now retired

COS -- Chief of Station, CIA

COUNTRY ATTACHE -- DEA person in charge of a foreign office

CRACK -- Cocaine hydrochloride that has been reverse-engineered into a smokeable, less expensive form of cocaine

CS -- Confidential Source

CSC -- Confidential Source Coordinator, DEA

CUADRA-Ferrey, Eduardo -- Nicaragua National Police Sub-Director who sought Enrique Miranda's return to prison in 1996

DEA -- Drug Enforcement Administration

DEA CI-1 -- DEA confidential informant, worked with DEA agent Gonzalez in 1986-87, traveled to the United States with Norwin Meneses

DEA CI 19 -- One of the informants used in the 1992 Blandon OCDETF case

DELGADO, Jose -- DEA agent who debriefed Enrique Miranda in Costa Rica in 1996

DELGADO, Raul -- Meneses' DEA contact and handler in Miami in 1988

DIA -- Defense Intelligence Agency

DOJ -- Department of Justice

DURAN, Gerardo -- Contra pilot, eventually convicted in Costa Rica for narcotics violations in 1992

EMMICK, Michael -- Los Angeles AUSA and one of the prosecutors in the "Big Spender" trials

EPIC -- DEA's El Paso Intelligence Center

EVANS, Joseph -- DEA agent in Miami who established Enrique Miranda as an informant

EVERETT, Douglas -- DEA intelligence analyst

FBI -- Federal Bureau of Investigation

FENSTER, Alan -- Attorney for Ricky Ross in 1996 trial in San Diego

FDN -- *Fuerza Democratica Nicarguenese*, Nicaraguan Democratic Force, the Northern Front of the Nicaraguan Contra movement

FERNANDEZ, Joseph -- CIA Chief of Station in Costa Rica in the late 1980s

FIERS, Alan -- Chief, CIA Central American Task Force, in the 1980s

FOSTER, Michael -- FBI agent assigned to the Office of Independent Counsel Iran-Contra investigation

FRESQUES, Fred -- FBI agent who interviewed Carlos Cabezas in 1987 for the Kerry Committee

"FROGMAN CASE" -- 1982 OCDETF investigation of a large-scale narcotics distribution network in San Francisco, so nicknamed because some defendants were arrested in wetsuits bringing cocaine ashore from a Colombian vessel in San Francisco Bay

"FRONT DOOR" -- 1986 FBI investigation of allegations of Neutrality Act violations by United States government officials in the covert sale of arms to Iran, later taken over by the Iran-Contra Office of Independent Counsel

FRS -- *Frente Revolucionario Sandino*, or Sandino Revolutionary Front, a wing of the Contra movement

FSLN -- *Frente Sandinista de Liberacion Nacional*, or Sandinista National Liberation Front, the Nicaraguan political force that ruled the country from 1979 until 1990

GIBLER, Gordon -- FBI agent who participated in the investigation of Meneses in San Francisco in the late 1980s

"GOMEZ, Ivan" -- Carlos Cabezas' alleged CIA contact

GONZALEZ, Sandalio -- DEA agent and Assistant Country Attache in Costa Rica in mid-1980s, handled Meneses in Costa Rica

GORDON, Thomas -- LASD Deputy Sheriff who applied for search warrants on Blandon's organization in October 1986, later convicted of federal charges in connection with the "Big Spender" trials

GRASHEIM, Walter -- American citizen working in El Salvador in the mid-1980s, against whom DEA agent Celerino Castillo opened an investigation

"GREEN ICE" -- Large DEA money laundering investigation in San Diego and elsewhere, targeting the Colombian cartel

GUERRA-Deguer, Sergio -- Arrested with Blandon by U.S. Customs Service at Mexican border on August 26, 1991

GUSTAFSON, Judy -- DEA agent who participated in the 1992 Blandon OCDETF investigation in San Diego

GUZZETTA, Jerry -- California police officer who obtained the information which led to the LASD investigation of Blandon

HALE, Don -- FBI agent who participated in the investigation of Meneses in San Francisco, now deceased

HILL, Eddie -- Former DEA agent in San Francisco, now retired

HILLHOUSE, Laura -- IRS agent who assisted the OCDETF investigation of the Blandon organization in 1987 and who continued the tax case against Lister in 1987

HINOJOSA, Manuel -- FBI agent in San Francisco, now retired

HODEL, Georg -- Free-lance journalist who investigated the CIA-Contra-crack cocaine allegations in Nicaragua in conjunction with Gary Webb

HONEY, Martha -- A journalist who, with Tony Avrigan, filed a 1986 civil law suit against several defendants for damage done to them by the defendants' alleged conspiracy to violate the Neutrality Act

HPSCI -- House Permanent Select Committee on Intelligence

HUFFMAN, Edward P. -- Sergeant who led the LASD investigation against the Blandon organization in 1986

HULL, John -- American citizen who owned a ranch with an airstrip in Costa Rica

ILOPANGO AIRPORT -- Airport located near San Salvador, El Salvador, from which Contra supply operations were based

INS -- Immigration and Naturalization Service

INTERPOL -- International Criminal Police Organization

IRS -- Internal Revenue Service

IVERSEN, Judd C. -- Defense counsel for Julio Zavala in the "Frogman Case"



JONES, Charles -- DEA agent who participated in the OCDETF investigation of Blandon in San Diego

KARST, George -- DEA agent assigned to the DEA Miami Field Office

KERRY SUBCOMMITTEE -- 1987 investigation by the Senate Committee on Foreign Relations Subcommittee on Terrorism, Narcotics and International Operations

KLOS, Jerry -- INS Assistant District Director for Examinations in the San Diego District Office

LA CI-1 -- FBI Los Angeles informant used against the Blandon organization in the 1987 OCDETF case

LACSO -- Los Angeles County Sheriff's Office

LAFRANCE, Timothy -- Worked for Ronald Lister's security company in El Salvador on a contract basis during the 1980s

LARD, Ronald -- DEA Country Attache in Costa Rica, 1989-1993

LASD -- Los Angeles Sheriff's Department

LASSART, James -- Former Assistant United States Attorney in the Northern District of California who handled the investigative portion of the "Frogman Case"

LEGAT -- Legal Attache, Federal Bureau of Investigation

LISTER, Ronald -- Former Southern California police officer, member of Blandon's drug organization, twice convicted drug trafficker who claimed to have an affiliation with the CIA

LOOKOUT -- An alert transmitted among law enforcement authorities to be watchful for a particular individual or entity

LPR STATUS -- Legal Permanent Resident Status, also known as a "green card"

LUNA, Anne -- IRS agent who participated in the 1992 OCDETF investigation of Blandon's organization in San Diego

MA, Thomas -- DEA agent in San Francisco

MENESES-Cantarero, Norwin -- Cocaine trafficker, cooperated with DEA in Los Angeles and Costa Rica, arrested in Nicaragua in 1991

MENESES, Ernesto -- Brother of Norwin Meneses

MENESES, Jairo -- Nephew of Norwin Meneses

MENESES, Luis -- Brother of Norwin Meneses, arrested with Norwin Meneses and Enrique Miranda in Nicaragua in 1991

MENESES, Roger -- Nephew of Norwin Meneses

MEZA, Amalia -- Assistant United States Attorney in San Diego who initiated the 1992 Blandon OCDETF case, also prosecuted Ronald Lister

MILGROUP -- Military Group

MIRANDA-Jaime, Enrique-- Nicaraguan national, member of Meneses' drug organization, arrested in 1991 and convicted of drug trafficking in Nicaragua

MONTGOMERY, Loren -- INS Immigration Examiner, now retired

MORALES, Jorge -- Convicted narcotics smuggler who claimed he entered into an agreement with Southern Front Contras to arrange weapons shipments in exchange for assistance in getting his criminal charges reduced

MORENO, Aparicio -- Alleged cocaine supplier to Blandon and Meneses

MORRISON, David -- Pseudonym for person who made allegations to the FBI in 1987, and to the San Jose Mercury News in 1996, that the Contras were selling arms and cocaine to support their movement

MOU -- Memorandum of Understanding

MURILLO, Orlando -- Blandon's relative who lived in Miami, allegedly helped launder money for Blandon's organization

NADDIS -- Narcotics and Dangerous Drug Information System, a DEA drug intelligence database

NAILS -- National Automated Immigration Lookout System, an INS database

NAVARRO, Tony -- Naturalized American, born in Nicaragua, who was appointed as the official FDN representative in San Francisco in 1986

NCIC -- National Crime Information Center, a database maintained by the FBI for use by law

enforcement authorities

NEWELL, Ollie -- Convicted drug dealer, a partner of Ricky Ross in Los Angeles

NIEVES, Robert -- DEA Country Attache in Costa Rica in 1980s, now retired

NNP -- Nicaragua National Police

OCDETF -- Organized Crime and Drug Enforcement Task Force, a federal program to coordinate investigations of major drug traffickers

OIA -- Office of International Affairs, Department of Justice, the office responsible for reviewing and handling extradition requests

OIG -- Office of the Inspector General

O'NEALE, L J -- Assistant U.S. Attorney in San Diego, handled the prosecution of Blandon in 1992 and the prosecution of Ross in 1996

OPERATION PERICO -- DEA file opened by DEA agent Sandalio Gonzalez in 1986 to document information provided by Meneses

OPIC -- Overseas Private Investment Corporation, an independent U.S. government agency that assists U.S. companies which invest overseas

OPR -- Office of Professional Responsibility

ORJALES, Rodolfo -- Former Assistant United States Attorney in San Francisco who handled the 1985 indictment and pleas of Jairo Meneses and Renato Pena

PASTORA, Eden -- Leader of the ARDE wing of the Contra movement

PCNE -- Conservative Party of Nicaraguans in Exile, a Contra support group in Costa Rica

PECKHAM, Robert F. -- Chief Judge, U.S. District Court, Northern District of California, presided over the Zavala case

PENA, Renato -- Member of the Meneses organization, arrested by San Francisco DEA, and alleged leader of the San Francisco FDN

PEREIRA, Horacio -- Alleged drug trafficker along with Zavala, Cabezas, and Troilo Sanchez

PEREZ, Juan -- DEA agent who investigated allegations regarding John Hull's airstrip in Costa Rica

RAPPACCIOLI-Marquis, Vicente -- General Treasurer of the PCNE and one of the individuals who signed documents stating that Julio Zavala had received \$45,000 from the PCNE

RICHARD, Mark -- Deputy Assistant Attorney General, Criminal Division, Department of Justice

RIVERA, J. James -- DEA agent who used Meneses as a source of information in Costa Rica in 1988

RIVERA, Richard -- U.S. Customs Service agent who handled the Customs Service investigation of Walter Grasheim in El Salvador in 1986

ROCHAS, Carlos -- Member of Blandon's drug organization, wounded by an unknown gunman in Guatemala in November 1987

RODRIGUEZ, Felix a-- .k.a. Max Gomez, former CIA employee ROI Report of Investigation

ROSS, Ricky Donnell -- a.k.a. "Freeway Rick," major cocaine supplier in Los Angeles

ROTUNNO, John -- Former DEA agent assigned to the DEA San Francisco office from 1983 to 1986, handled several investigations against the Meneses organization

RULE 35 MOTION -- A motion filed by the government seeking a reduction in a defendant's sentence because of changed circumstances

RUSSONIELLO, Joseph -- Former United States Attorney, Northern District of California, 1982-1990

RUZZAMENTI, William -- DEA agent in San Francisco who participated in the investigation of Norwin Meneses in the 1980s

SA -- Special Agent

SAC -- Special Agent in Charge

SANCHEZ, Troilo -- Alleged drug trafficker along with Cabezas, Zavala, and Pereira

SANDINISTA NATIONAL LIBERATION FRONT -- Revolutionary coalition which overthrew the Somoza regime in Nicaragua in July 1979

SCHRETTNER, Thomas -- DEA agent who participated in the OCDETF investigation of Blandon in

Los Angeles in 1987

SMITH, Sandra -- Former DEA agent assigned to the DEA San Francisco office from 1974 to 1984, investigated the Meneses organization

SOI -- Source of Information, DEA

SALOMON, Doris -- Second wife of Julio Zavala

SOMOZA-Debayle, Anastasio -- Inherited the dictatorship of Nicaragua from his brother in 1967, removed from power by the FSLN in 1979

SOURCE 1 -- FBI informant in the "Frogman Case"

SOURCE OF INFORMATION -- An individual who provides information to law enforcement authorities, generally on a less formal basis than an informant

SR3 -- DEA informant used in investigation of Meneses from 1983 until 1986 in San Francisco

SSA -- Supervisory Special Agent

SSCI -- Senate Select Committee on Intelligence

STG-6 and STG-13 -- Informants used by DEA agent Celerino Castillo in his investigation of drug trafficking at Ilopango Airport in El Salvador in 1986

STIA, Robert -- DEA Country Attache in Guatemala, 1985 to 1991, now retired

STRICKLAND, Lee -- CIA Office of General Counsel attorney involved in the return of the seized money to Julio Zavala

SWENSON, Eric -- San Francisco Assistant United States Attorney who participated in the investigation and indictment of Meneses in 1989, now retired

TECS -- Treasury Enforcement Communications System, a Department of the Treasury database

TELLEZ, Robert, Jr. -- INS agent who participated in the 1992 San Diego Blandon OCDETF investigation, arranged for Blandon to obtain Legal Permanent Resident status

TORRES, Edgar -- Brother of Ivan and Jacinto, all of whom are members of Blandon's organization

TORRES, Ivan -- Colombian national, brother of Edgar and Jacinto Torres, all of whom were allegedly members of Blandon's drug organization

TORRES, Jacinto -- Brother of Edgar and Ivan Torres, all of whom allegedly were members of Blandon's organization

TSE, Stephen -- DEA agent in San Francisco, initiated a case against Meneses in 1990

UDN-FARN -- Nicaraguan Democratic Union, Revolutionary Armed Forces of Nicaragua

USAO -- United States Attorney's Office

USCS -- United States Customs Service

VILLARREAL, Federico -- DEA agent in Costa Rica, from 1991 to 1992, now retired

WALSH, James -- Los Angeles Assistant United States Attorney, as Chief of the Major Narcotics Section oversaw the OCEDTF program in Los Angeles

WATERS, Maxine -- Member of the U.S. House of Representatives (D) representing the 35<sup>th</sup> Congressional District of California

WEBB, Gary -- Former reporter for the San Jose Mercury News who wrote the "Dark Alliance" series of articles on the alleged CIA-Contra-crack cocaine connection

WEBB, Patrick -- FBI agent who interviewed David Morrison in 1987

WEEKLY, David Scott -- a.k.a. Dr. Death; former Navy serviceman and Vietnam veteran

WILLIAMS, W K -- FBI agent who investigated Meneses in San Francisco in the late 1980s and early 1990s

ZANIDES, Mark -- Assistant United States Attorney in the Northern District of California, handled criminal prosecutions in the "Frogman Case"

ZAVALA, Julio Cesar -- Convicted drug dealer in San Francisco, received seized money back from the San Francisco U.S. Attorney's Office

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